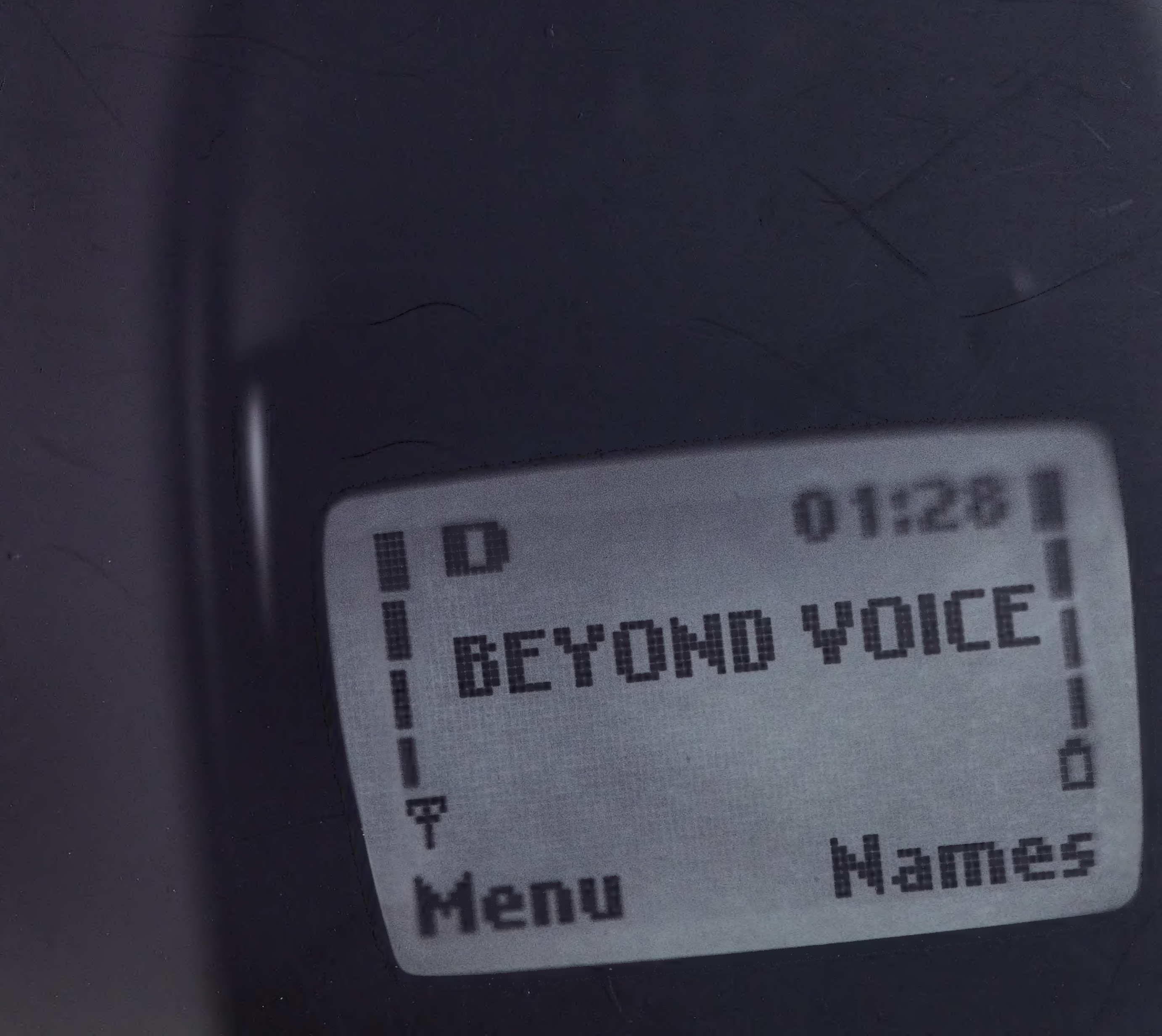
Bell Mobility®

BCE MOBILE COMMUNICATIONS INC. 1998 ANNUAL REPORT



Beyond voice. *Talk is only one aspect of a wireless communications universe brimming with opportunity. BCE Mobile is leading the Canadian wireless industry into new dimensions of customer value through an array of imaginative services – from Internet access to custom traffic reports – delivering more power to the palm of your hand. Innovations that make life simpler… and better.*

BCX

BCE Mobile Communications Inc. is Canada's largest full-service wireless communications company. Under the Bell Mobility brand, we offer cellular, digital PCS, one- and two-way paging, data, airline passenger and satellite communications services to more than two million Canadians. As well, we sell customer hardware and private radio systems. The shares of BCE Mobile, which is 65 per cent owned by BCE Inc., are traded on the Toronto, Montreal and New York stock exchanges (ticker symbol: BCX).

1

Simple to buy and use, Bell Mobility Prepaid services come with no credit checks or contracts. By making it easier for customers to manage wireless costs, BCE Mobile maintains its tradition of leadership in the industry's fastest growing market segment.

At the forefront of an industry poised for explosive expansion, BCE Mobile's focus for profitability is to provide bundled solutions and tailored products and services that provide more value to more people.

Market leadership

Today, more than five million Canadians use a wireless device. Within five years, that will double. BCE Mobile will lead that expansion, building on our industry-leading network and customer service to attract new subscribers, stimulate usage and introduce a steady stream of new value-added services that build long-term value for the business.

Growth will come in many forms. Prepaid service, which makes the product easier to buy, has opened an untapped market, accounting for more than 40% of new customers in fourth quarter 1998. As well, the emerging wireless data opportunity will spur significant sustainable growth. Early in 1999, the volume of text messages transmitted over our digital network was increasing at a rate of 10% a day. And that is just a beginning.

Simplify your life

Wouldn't it be nice to use your phone to find directions in a strange city? Want to manage your messages with a personal assistant that responds to your voice commands? Need to simplify your life by buying theatre or sports tickets on-line... or linking with your office files... or giving your friends and family one number at which they can contact you — all through your handset? BCE Mobile is making it all possible.

Advanced services

Our people are committed to making the most of the enormous opportunities generated by converging technologies. That means delivering advanced services such as voice dialing, integrated voice mailbox, wireless point-of-sale and mobile, handheld access to the Internet. It also means looking beyond the wireless world, integrating services regardless of the technology to meet the customer's total communications needs.

Today more than ever, great voice is only the beginning of the promise.

By launching three dozen innovations in 1998, BCE Mobile signaled the start of a different game: new services, new alliances, and new value for customers.

Focus on collaboration

On average in 1998, BCE Mobile introduced one innovation every 10 days, more than double the pace of the previous year. We will strive to maintain that momentum, fueled by collaborative ventures — often across technology frontiers — that change the game from one of voice connectivity to a new one of ready access to the entire universe of communications. And as we build more value into the handset, as we create an essential tool of everyday life in the 21st century, we generate value in the company.

In groundbreaking alliances with companies like Microsoft and Unwired Planet, BCE Mobile is enabling customers to surf the Internet from digital phones. Through a joint venture called AirIQ, we are pioneering a system that allows fleet owners to locate and track vehicles, unlock doors, even detect accidents, all remotely.

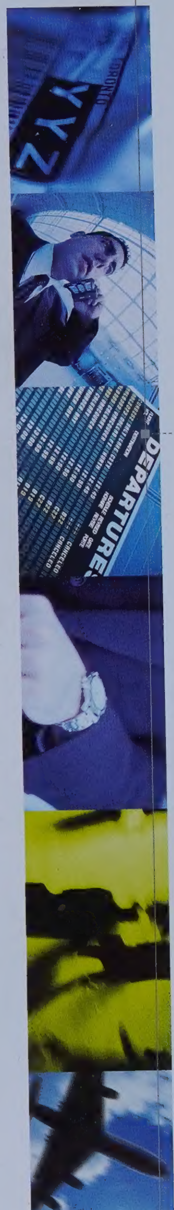
Canadian firsts

BCE Mobile is the first company in Canada to offer personalized information services such as traffic reports on your digital phone or pager, stock alerts in which customers are automatically informed when a particular share hits a certain price, voice-controlled personal assistant services through Wildfire, voice dialing that works whoever is speaking, and Beepwear, a combination pager-wristwatch.

Our record of innovation includes Call Display, to screen incoming calls, No Answer Transfer, enabling calls to follow customers wherever they go, and Office Link, by which the wireless phone becomes an extension of the office phone system.

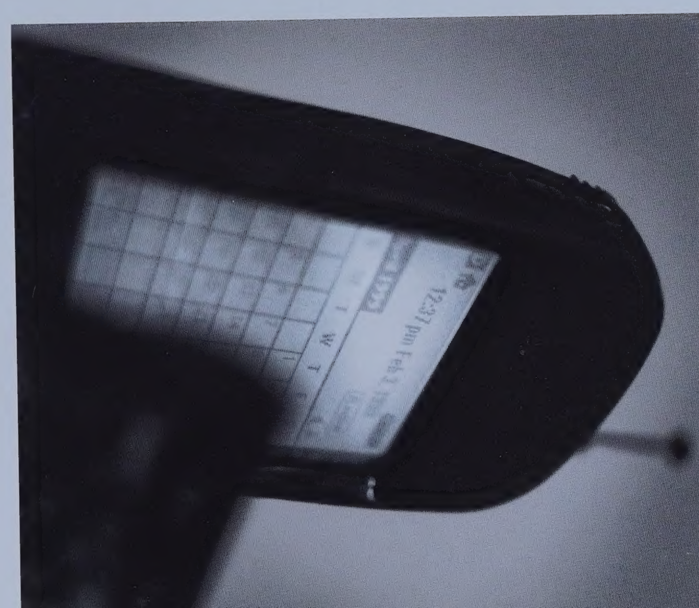
Value

With dozens of new initiatives planned for 1999, including a new phone with a built-in electronic organizer, we will continue to lead the market in providing value to the customer... and the shareholder.



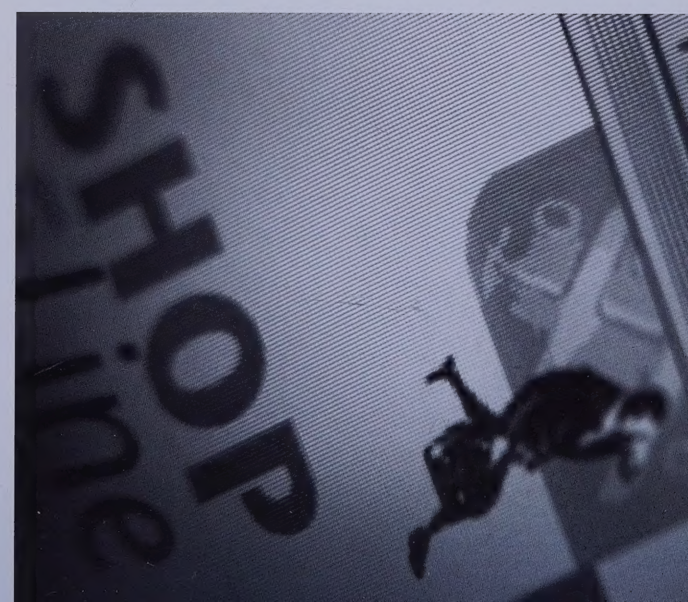
2

Imagine a handheld tool that not only lets you communicate anywhere, any time, but also helps you stay on schedule. Make the most of your time with the new QUALCOMM pdQ™, a digital wireless phone with a built-in electronic organizer.



All the convenience and security of tomorrow's e-commerce world is here today with Bell Mobility Shop On-line, BCE Mobile's interactive Internet store that lets customers mix and match phones, services and accessories — and get delivery within three business days.

3



BCE Mobile develops products and services that are easy to buy... and easy to use. No one has time for techno-complexity.

Innovation is key to our ability to offer market-leading services and to stay close to the people who determine our success — our customers. It is also essential to our goal of managing the business to deliver a superior return to our shareholders.

BCE Mobile — alone and in partnerships — is creating a full range of initiatives to strengthen our customer connection, including:

Communications store of choice

The communications store of choice — Bell World. In collaboration with Bell Canada and ExpressVu, we are launching a one-stop shop to meet our customers' need for total communications solutions whether that's wireless, wireline or satellite.

Shop On-line

The virtual store of choice. With Shop On-line through the Bell Mobility Website, customers can buy a complete range of wireless products and activate their service without ever leaving home or office. A Canadian first, Shop On-line offers customer convenience as well as a powerful, cost-effective distribution and marketing vehicle.

One-and-done customer care

One-and-done customer service. No more long waits on line to get to our customer service operation. And no more being transferred from person to person. Our goal is to answer 80% of calls within 20 seconds, and to resolve 80% of calls on first contact.

Customer prime

The broadest range of payment options. Pay by credit card, over the Internet or by pre-authorized payments. Pay after you use the service, or take advantage of the simplest way to manage wireless costs with Prepaid service.

For BCE Mobile, the customer is our focus.

Businesses of all sizes are challenged to stay close to their increasingly mobile customers and employees on the move. M-business from BCE Mobile provides the solutions.

M-business puts wireless to work in new ways to make business work better.

Targeted to capture a significant share of the high-value business market, M-business offers wireless tool sets to keep the customer close, streamline the way employees communicate... or both.

For example, M-business solutions:

Connect with mobile customers
Enable customers to buy products, view and pay their bills, access information on new services... wherever they go, whenever they want, through Internet e-commerce.

Link employees
Make it possible for one computer company's 700 field staff to be wirelessly linked via laptop to their files, databases, e-mail and the corporate intranet no matter where they are.

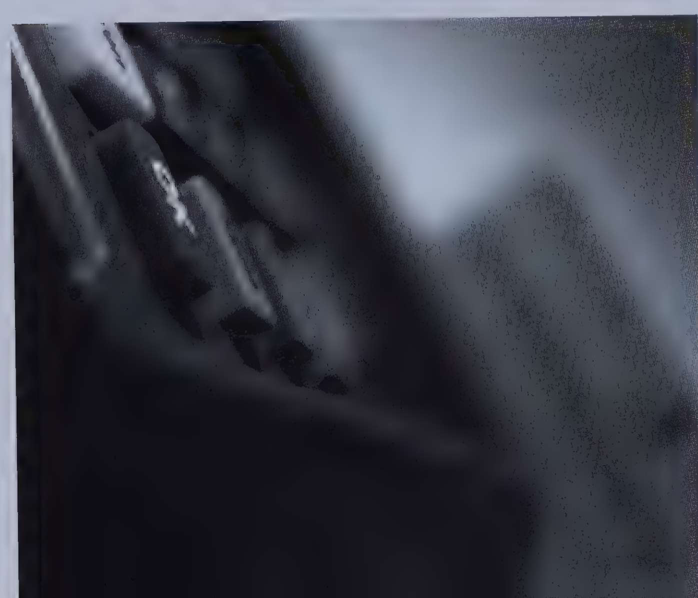
Monitor assets
Allow firms to use wireless sensors to monitor vital systems in equipment that ranges from elevators and vending machines to truck fleets and chicken farms.

These solutions and more are wireless today. And they're available only with BCE Mobile.

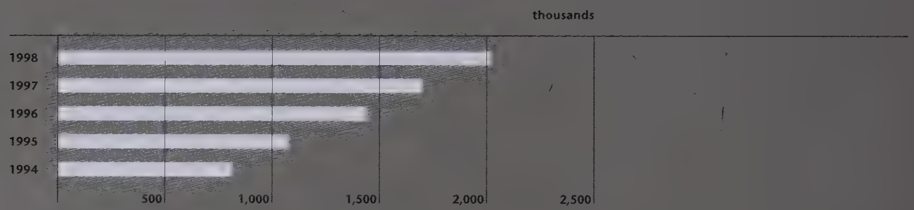
Tailored solutions
Drawing on a growing array of new wireless applications — and an expanding network of corporate alliances — BCE Mobile is unique in the marketplace. We can tailor a solution that goes beyond basic voice communications to help businesses reach their objectives... today and tomorrow.

4

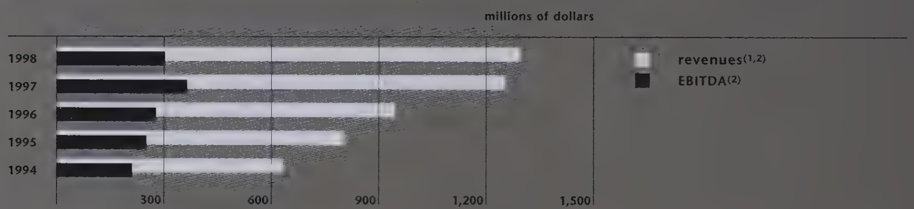
Innovations in wireless point-of sale mean opportunities for business. Taxi passengers gain an alternative to paying cash, and cab operators gain the security of transactions that are authorized wirelessly. Mobilizing business... in more ways than one.



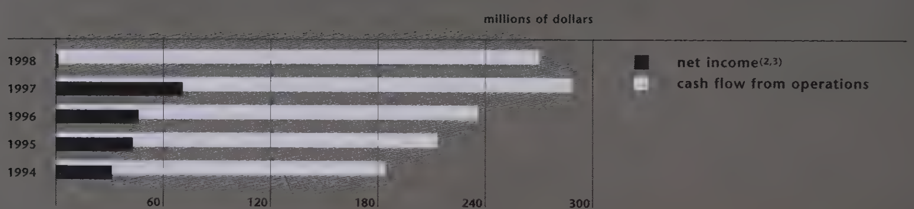
1. consolidated subscribers



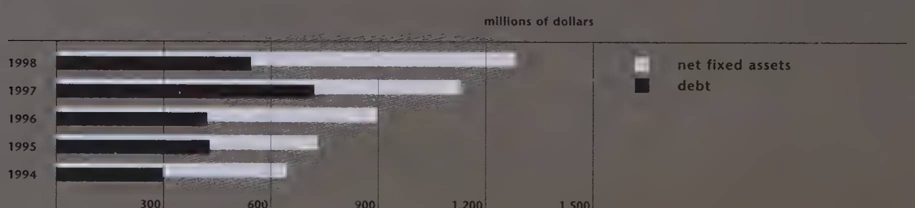
2. revenues and EBITDA



3. net income and cash flow from operations



4. net fixed assets and debt



see opposite page for footnotes

financial highlights

	1998	[illegible]	[illegible]	[illegible]
millions of dollars				
operations				
Revenues	$1,294.2	[illegible]	[illegible]	[illegible]
EBITDA	303.4	[illegible]	[illegible]	[illegible]
Net income	0.2	[illegible]	[illegible]	[illegible]
Cash flow	270.1	[illegible]	[illegible]	[illegible]
dollars per share				
per share data				
Earnings	$ 0.00	$ 1.02	[illegible]	[illegible]
Cash flow	3.58	[illegible]	[illegible]	[illegible]
millions of dollars (at December 31)				
financial position				
Working capital — excluding debt due within one year	$ 31.6	[illegible]	[illegible]	[illegible]
Fixed assets — net	1,282.4	[illegible]	[illegible]	[illegible]
Total debt	543.9	[illegible]	[illegible]	[illegible]
Shareholders' equity	878.3	[illegible]	[illegible]	[illegible]
(at December 31)				
subscribers				
Cellular and PCS	1,475,000	1,221,000	1,044,000	21%
Pagers in service	542,000	[illegible]	396,000	14%

note 1: reflects the reclassification of outbound roaming revenues
note 2: adjusted to recognize billing credits and/or expense hardware costs as incurred
note 3: before non-recurring items

During 1998, the Canadian dollar averaged US $0.672 (1997 — US $0.722, 1996 — US $0.733)
At year end, the dollar traded at US $0.651 (1997 — US $0.699, 1996 — US $0.730)

Robert A. Ferchat Randall J. Reynolds

changing the game

BCE Mobile is synonymous with leadership in wireless communications. With the expertise and commitment of our [illegible] employees, we continue to strengthen that tradition through a unique, high-value and compelling approach to the market.

Fundamentally, our direction is set by our customers. By focusing on delivering excellence to our customers, we will achieve a premium position in the marketplace for the solutions we develop. That excellence is defined by the customer to include products that perform, every time; services that are easy to buy and simple to use; and a delivery system that is bullet proof at every point of contact with the customer.

We are leading a transformation of the Canadian wireless industry, driven by the emerging power of digital technology and the accelerating convergence of telecommunications with the world of computing. Where once we thought only mobile and wireless products, now we think bundling and integrated solutions. Where once we sold only through stores, as we look ahead we see a broad range of channels. Where once our technology differentiated us from the competition, now our service to customers is what makes the difference. The business is changing from one of selling hardware and airtime to one in which we combine a wide range of technologies to create innovative bundled solutions and tailored products and services to meet the total communications needs of our customers.

Communications in the future is all about access — providing people with the tools to gain access to the universe of information beyond voice, from the Internet to the office e-mail, from remote asset monitoring to alerts on the latest stock quotations — all through the wireless phone in your hand.

We address that challenge from a position of strength. Despite the aggressive competition in 1998 – the first full year in which all four wireless players were operational — we are pleased to report that BCE Mobile delivered on its plan in all key facets of its operations. As other parts of this report detail, in 1998 BCE Mobile continued to be the only wireless carrier in its territory to be profitable, with net income of $0.2 million, compared to a cumulative loss of $1 billion in the Canadian industry as a whole. Our net income result, although reduced from 1997, is in line with our plan which took into account lower prices in the market, the cost of migrating our best analog customers to digital and our investment in building the digital network.

Significantly, in a four-player marketplace, we captured an estimated 54 per cent of the market as measured by service revenue. As well, we became Canada's largest wireless company, crossing the two million customer threshold by attracting 254,000 new cellular and digital customers and 67,000 new paging subscribers, increases of 21 per cent and 14 per cent, respectively, over 1997. In short, in 1998 we successfully repositioned the company for growth under the new terms of competition. We achieved that with a single, overarching purpose — to create long-term value in this industry. From that solid foundation, we have a clear view of the road ahead.

We are engaged in a campaign of intense innovation in every area of the business — developing services, enhancing the network, extending our alliances, re-defining the way we go to market and refining the way we work. We will focus our growth on digital, which is the backbone for the wide array of highly profitable, value-added services

we continue to roll out. In the fourth quarter alone, half our sales came from services we did not [illegible] working with partners to ensure our customers have access to all the services and products [illegible] technologies produce. We are committed to provide customers with more and better choices in [illegible] through initiatives such as our streamlined customer service operation, our expanding presence [illegible] new one-stop-shopping concept, Bell World. And we are tightly focused on finding new efficiencies [illegible] instant activation over the Internet to reducing our cost to acquire a new customer through [illegible]

In these ways, we are focused on creating long-term value for our investors, changing the game, as only a leader can do. And what a game it is. We are engaged in an industry that we firmly [illegible] people live and work, as surely as the mass-produced automobile touched virtually every [illegible] world. By combining the reach and efficiency of telecommunications networks with the power of [illegible] then integrating it all in a mobile environment, we are eliminating the old barriers erected by space [illegible] time, we are helping create a better quality of life and a new world of freedom.

Our employees have excelled in a most competitive environment. And they are committed to lead the industry that is enabling people to accomplish more, and to choose when and where they will [illegible] our people are delivering the operational and financial results that improve on our record of [illegible] tations of our shareholders, and position us for even more success in the future.

Robert A. Ferchat
Chairman of the Board

Randall J. Reynolds
President and Chief Executive Officer

changes to the board of directors

John MacDonald, President and Chief Operating Officer of Bell Canada, is joining the Board as part of the BCE-wide initiative to more closely align the strategic direction of its operating companies. Prior to joining Bell Canada in 1997, Mr. MacDonald was President and Chief Executive Officer of The New Brunswick Telephone Company, Limited. **Randall J. Reynolds**, who was appointed President and Chief Executive Officer of BCE Mobile in January 1999, also joins the Board. Mr. Reynolds has served in a variety of positions with BCE Mobile, including most recently President and Chief Operating Officer. **Robert A. Ferchat** continues as Chairman of the Board after providing four years of distinguished leadership to the company as Chairman and Chief Executive Officer.

We also extend our gratitude to three long-serving Directors who are retiring from the Board. **L.R. Wilson** joined the board in July 1992. As Chairman of the Executive Committee, he was "lead director". **John H. Panabaker** served as a director from July 1989, chairing the Management Resources and Compensation Committee (MRCC). **Léonce Montambault** joined the Board in July 1990 and served on both the Audit Committee and the MRCC. All three men made significant contributions to the company during its formative years, helping establish BCE Mobile's tradition of leadership

January 98

Our helping handsets

BCE Mobile keeps the network running and delivers 5,000 cell-phones, pagers and satellite phones to shelters and emergency organizations through the worst of the infamous Ice Storm of 1998.

March 98

Look, Ma. No hands

It adds convenience. And it enhances safety. It's VoiceDial, introduced to make calling even easier for wireless customers.

April 98

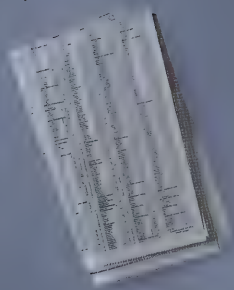
Keeping it simple

Because life is complicated enough, BCE Mobile introduces a simpler rate structure and new customer-focused campaign: "work better — live smarter".

May 98

Wireless in fashion

The country's first combination pager and wristwatch hits the market in a fashion accessory that lets customers receive numeric and text messages... and look good doing it.



57.6 Kb

05.

May 98

Another Canadian first

The launch of SimplyOne with Bell Canada provides customers with one telephone number for both wireline and wireless, plus one voice mailbox and a single bill.

06.

June 98

A Priority investment

In an alliance with Charles Schwab Canada (formerly Priority Brokerage Inc.), BCE Mobile delivers instant access to financial market information on the go, enabling stock alerts and quotes to be flashed to the handset screen.

07.

June 98

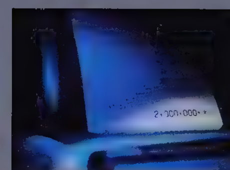
Public safety partners

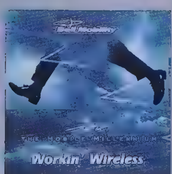
A $280 million, 15-year radio contract with the Ontario government will ensure robust and integrated communications for five provincial safety agencies from police and ambulance to forest fire fighting.

July 98

Data — at speed

Nortel Networks and BCE Mobile demonstrate high-speed wireless Internet access at 57.6 kilobits per second over BCE Mobile's CDMA network, opening the door for wireless data solutions.





September 98

Mobilizing business

The introduction of M-business provides a suite of wireless solutions to help businesses cater to customers and empower employees for the Mobile Millennium.

10

October 98

We've got you covered

With the extension of the digital network in Barrie and London, Ontario, BCE Mobile's digital network reaches 70 per cent of the population one year after PCS was launched.

11

November 98

Wireless Internet access

BCE Mobile announces an alliance with Wireless Knowledge LLC, a QUALCOMM and Microsoft Corporation joint venture that will provide wireless access to e-mail, corporate information and the Internet.

12.

December 98

Over the top

BCE Mobile tallies its two millionth customer, making it the largest wireless company in Canada.

financial table of contents

management's discussion and analysis

for the twelve months ended December 31, 1998

The following management's discussion and analysis of the results of operations and financial condition of BCE Mobile Communications Inc. ("BCE Mobile" or the "Company") should be read in conjunction with the audited Consolidated Financial Statements of the Company for the three years ended December 31, 1998 included on pages 34 to 54 of this annual report.

This MD&A contains forward-looking statements with respect to BCE Mobile. These forward looking statements by their nature necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements.

BCE Mobile considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of BCE Mobile, may ultimately prove to be incorrect.

Effective January 1, 1998, the Company has reclassified revenues generated by its cellular and PCS customers when they travel outside Bell Mobility's coverage area. It now reports these "out-bound roaming" revenues in service revenues, with associated costs as operating costs. Previously, the revenues and costs were netted against one another and recorded in operating costs. Figures for 1997 and 1996 have been adjusted to provide a meaningful discussion.

A. overview

	1998	1997	1996[1]	change 98/97	change 97/96
Subscribers (000)[2]	2,020	1,699	1,443	19%	18%
millions of dollars					
Net income	$ 0.2	$ 70.9	$ 46.3[3]	-100%	53%
Revenues	1,294.2	1,252.7	945.3	3%	33%
EBITDA[4]	303.4	365.3	278.3	-17%	31%
Capital expenditures	392.5	428.7	329.2	-8%	30%

note 1: adjusted to recognize billing credits and/or expense hardware costs as incurred
note 2: includes cellular, PCS, paging, data and other
note 3: excludes non-recurring items
note 4: EBITDA refers to operating income before depreciation, amortization and special charges

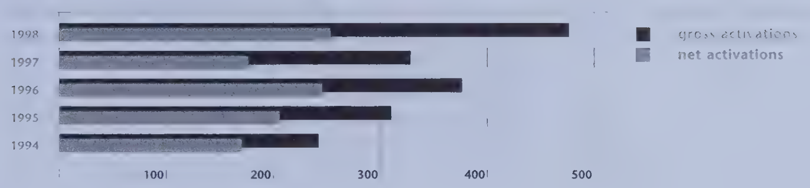
The Company reported consolidated net income of $0.2 million for the year ended December 31, 1998 compared to $70.9 million in 1997. The results for 1998, which reflect the first full year of its PCS operations and costs to migrate high-usage analog cellular customers to PCS, met or exceeded the Company's internal financial targets.

Consolidated revenues increased by $41.5 million or 3% to $1,294.2 million in 1998. Cellular and PCS service revenues were $928.9 million, up $65.6 million or 8%, and paging service revenues increased by $3.2 million, or 4% to $75.0 million. Equipment sales and other revenues decreased by $27.4 million or 9% to $290.2 million.

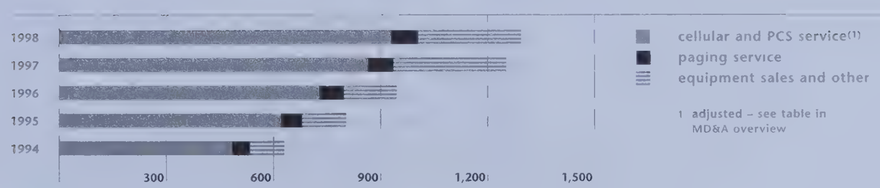
Consolidated EBITDA (operating income before depreciation, amortization and special charges) decreased by 17% to $303.4 million due to lower cellular and PCS EBITDA. The decrease is attributable to higher expenses related to its digital PCS service and to migration costs.

Capital expenditures in 1998 were $392.5 million or $36.2 million lower than in 1997 due to lower network expenditures.

g1. cellular and PCS gross and net activations

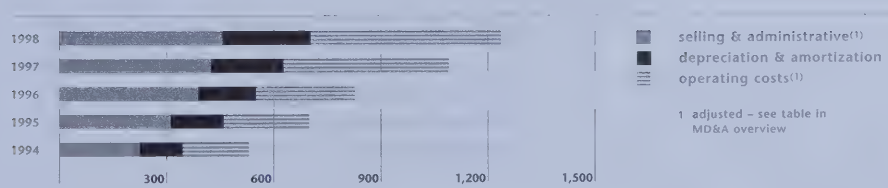


g2. revenues



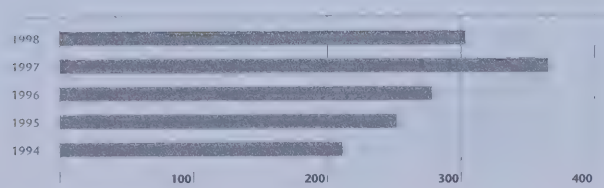
1 adjusted – see table in MD&A overview

g3. operating expenses



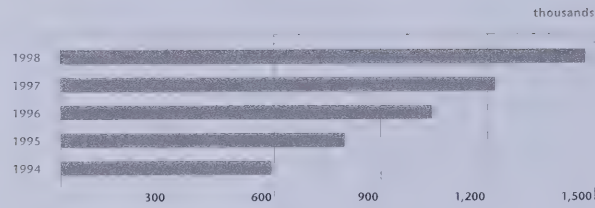
1 adjusted – see table in MD&A overview

g4. EBITDA(1)

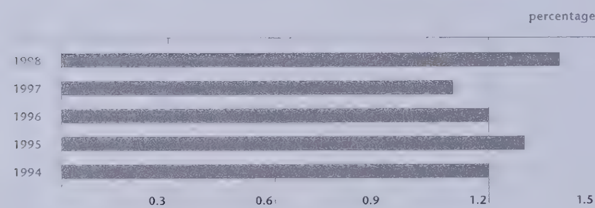


1 adjusted – see table in MD&A overview

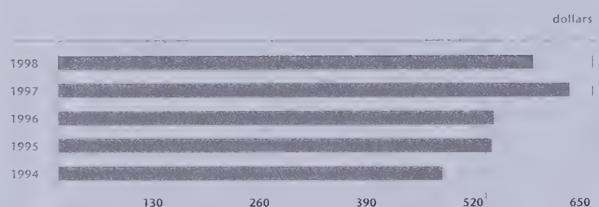
g5. cellular and PCS subscribers



g6. cellular and PCS churn per month

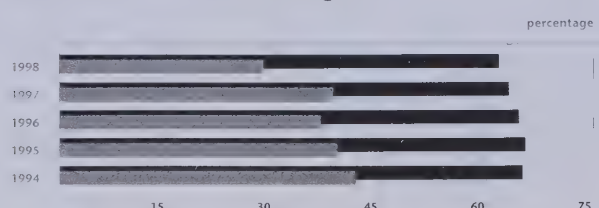


g7. cellular and PCS cost of acquisition per gross addition[1]



1 excluding migrations, adjusted – see table in MD&A overview

g8. cellular and PCS cash flow margin[1]



after acquisition costs
before acquisition costs

1 adjusted – see table in MD&A overview

B. results of operation

cellular and PCS service

Components of the Cellular and PCS Service Operating Cash Flow Margin[1]:

millions of dollars	1998	1997	1996[2]	change 98/97	change 97/96
Service revenues	$ 928.9	$ 863.3	$ 727.6	8%	19%
Operating costs and expenses excluding acquisition and migration costs, depreciation and amortization	(358.4)	(318.4)	(260.4)	13%	22%
Operating cash flow before acquisition and migration costs	570.5	544.9	467.2	5%	17%
Acquisition costs	(275.3)	(204.3)	(199.5)	35%	2%
Migration costs	(28.2)	(8.3)	0.0	240%	n.m.
Operating cash flow	267.0	332.3	267.7	-20%	24%
Margin (%)	28.7	38.5	36.8		

note 1: cellular and PCS equipment sales and costs have been netted against one another and the resulting net expense has been included in acquisition costs
note 2: adjusted to recognize billing credits and/or expense hardware costs as incurred
n.m.: not meaningful

Cellular and PCS service revenues totaled $928.9 million for the year, an increase of $65.6 million or 8% over 1997. The increase was mainly due to a 17% increase in the average number of subscribers, partly offset by lower revenue per subscriber.

	1998	1997	1996	change 98/97	change 97/96
Subscriber activations (000)	476	328	376	45%	-13%
Subscriber deactivations (000)	222	151	130	47%	16%
Churn (%/month)	1.4	1.1	1.2		
Subscribers (end of period) (000)	1,475	1,221	1,044	21%	17%
Average subscribers (000)	1,300	1,110	884	17%	26%
Usage per subscriber (min./month)	163	162	159	1%	2%
Average service revenue per subscriber ($/month)	60	65	69	-8%	-6%

Subscriber activations for the year ended December 31, 1998 were 476,000 or 45% higher than in 1997 due to higher digital PCS activations in the first full year of PCS service and to the introduction of prepaid service.

Bell Mobility Prepaid service, launched in June 1998, was designed to open the wireless market to potential users who are not able to meet the current credit standards of BCE Mobile and to those who have been waiting for a simple way to control service costs before signing up. At December 31, 1998, BCE Mobile had 126,000 prepaid customers, representing 9% of its cellular and PCS subscriber base.

Subscriber deactivations increased by 71,000 to 222,000 for the year ended December 31, 1998, reflecting the more competitive state of the wireless market and the Company's larger cellular and PCS subscriber base. The overall subscriber churn rate increased to 1.4% per month from 1.1% per month last year. Despite this increase, BCE Mobile's churn rate remains among the lowest of North American wireless operators. In 1998, the churn rate for both its prepaid and digital PCS subscribers was negligible.

Average revenue per subscriber decreased by 8% to $60 per month for the year from $65 in 1997, mainly due to lower pricing and the changing mix of customers. Average revenue per minute decreased from 40 cents to 37 cents, while average usage per subscriber remained relatively constant at 163 minutes per month.

For the purposes of this MD&A, revenues and costs associated with the purchase and resale of cellular and PCS equipment have been netted against one another and the resulting net expense has been included in acquisition costs. Revenues for cellular and PCS equipment sales in 1998 were $177.0 million, down $14.6 million or 8% due to lower hardware pricing (in part due to changes in the Company's dealer compensation plan), partly offset by a higher volume of equipment sold.

Cellular and PCS operating costs and expenses, which include network, customer maintenance and overhead costs, increased by $40.0 million or 13% over last year.

Network costs (included in "operating costs" in the consolidated statements of income), which consist mainly of costs associated with network operations, cell site leases and interconnection with the local wireline telephone companies, increased by $28.0 million mainly due to higher interconnection charges ($9.1 million), roaming charges ($6.5 million) and system license fees ($5.0 million).

Customer maintenance and overhead costs (included in "general and administrative" costs in the consolidated statements of income) increased by $12.0 million mainly due to higher subsidies provided to existing customers for telephone upgrades.

Subscriber acquisition costs (excluding migration costs) include advertising expenses, dealer compensation, customer hardware subsidies and sales support costs. Contributing to the $71.0 million or 35% increase in acquisition costs was the 45% increase in the number of subscriber activations from 328,000 to 476,000. This was partly offset by lower unit costs, which decreased from $622 to $578 per gross activation or 7% as a result of lower advertising costs, commissions and sales support costs which more than offset higher hardware subsidies.

Along with the deployment of digital PCS service, BCE Mobile also implemented a strategy to actively migrate its high-revenue analog cellular subscribers to the digital PCS network. The objective of this policy was to maintain the loyalty of its best customers and to free up capacity on its analog cellular network. Since implementation, churn has remained low and the digital PCS network currently handles approximately 20% of total cellular and PCS traffic. As a result of the success of the plan, the Company is allowing market forces to determine the rate at which its analog customers migrate to digital. Migration costs in 1998 increased to $28.2 million from $8.3 million in 1997 due to a greater number of migrations, partly offset by lower hardware subsidies.

Cellular and PCS service operating cash flow decreased to $267.0 million for the year from $332.3 million in 1997. The operating cash flow margin decreased to 28.7% from 38.5% in 1997.

paging and other

Paging and other includes the operation of Canada's largest paging business, the sale of pagers, voice and data communications services for passengers traveling with Air Canada, cellular data and wireless packet data communications services, cellular and PCS equipment sales outside of the Company's licensed territory, the design, installation and maintenance of major private radio networks, and consulting services.

Components of paging and other cash flow:

millions of dollars	1998	1997	1996	change 98/97	change 97/96
Revenues					
Paging service	$ 75.0	$ 71.8	$ 68.3	4%	5%
Equipment sales	70.0	88.0	15.8	-20%	457%
Other	43.2	38.1	34.0	13%	12%
Total	188.2	197.9	118.1	-5%	68%
Operating costs and expenses excluding depreciation and amortization	(151.8)	(164.9)	(107.5)	-8%	54%
Operating cash flow	$ 36.4	$ 33.0	$ 10.6	10%	212%

Revenues from paging and other decreased by $9.7 million to $188.2 million in 1998 resulting from an $18.0 million decrease in equipment sales (principally related to equipment sales outside the Company's licensed territory), partly offset by an increase of $3.2 million in paging service and $5.1 million in other revenues. Higher private radio revenues were responsible for the increase in other revenues.

	1998	1997	1996	change 98/97	change 97/96
Pagers in service (end of period) (000)	542	475	396	14%	20%
Pagers in service (average) (000)	509	433	334	18%	30%
Churn (%/month)	3.1	2.7	3.0		
Service revenue per pager ($/month)	12	14	17	-14%	-18%

The increase in paging service revenues resulted from an 18% increase in the average number of pagers in service, partly offset by lower revenue per average pager compared to last year. Service revenue per pager decreased 14% to $12 per month for the year from $14 per month last year. The decrease resulted mainly from the continued impact of price competition in the marketplace.

In June 1998, BCE Mobile announced the signing of a 15-year, $280 million contract with the government of Ontario for the consolidation and replacement of five analog radio networks. Bell Mobility Radio initially will be maintaining these existing networks while designing and implementing a new trunked digital radio network over the next several years. This new private radio network will integrate two-way communications among the provincial police, correctional services, ambulance services, fire fighting and nature conservation, and highway safety services.

The contribution of paging and other operations to consolidated EBITDA increased by $3.4 million to $36.4 million in 1998. The increase is due to a higher contribution from paging services, partly offset by lower contributions from equipment sales and other operations.

depreciation and amortization

Depreciation and amortization increased to $245.4 million from $202.2 million due to the growth in the fixed asset base.

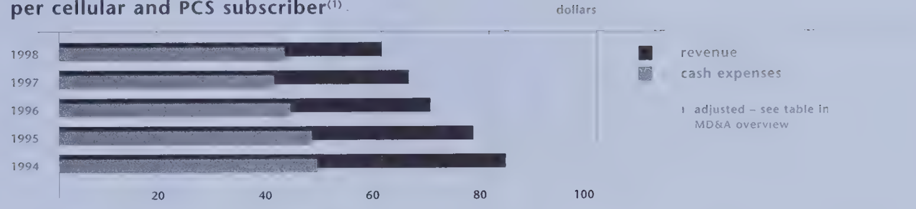
interest expense

Interest expense increased by $5.3 million to $47.5 million during the year. The increase resulted from higher average debt outstanding, partly offset by lower cost of debt. At December 31, 1998, the weighted average rate of interest on the Company's fixed-rate debt was 7.4% (7.6% at December 31, 1997). All of the debt was in fixed rate debentures and term bank financing. In addition, all debt and interest payments were in Canadian dollars or were fully hedged into Canadian dollars.

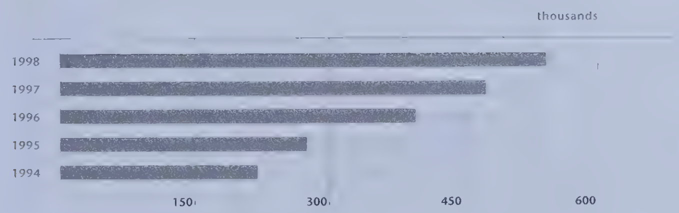
taxes and other government fees

Taxes and other government fees paid for 1998 decreased by $38.9 million, or 26% to $110.7 million in 1998. This total includes income taxes, net sales taxes, municipal, payroll and capital taxes and license fees paid to all levels of government and their agencies.

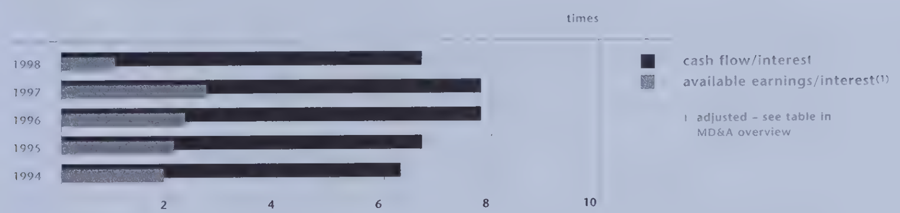
g9. monthly revenue and cash expenses per cellular and PCS subscriber(1)



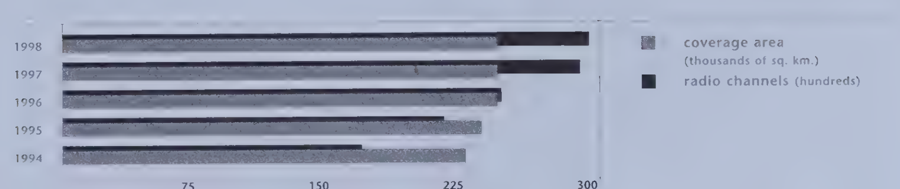
g10. pagers in service



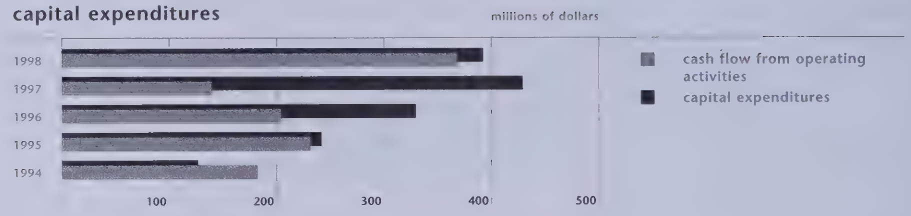
g11. interest coverage



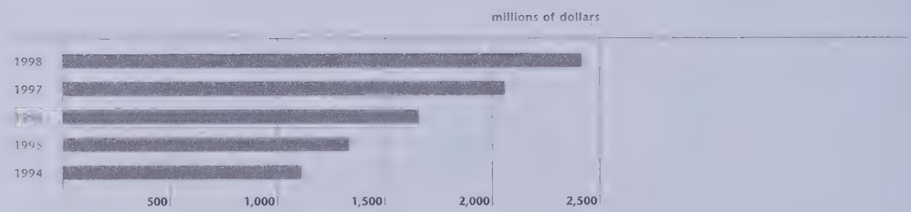
g12. cellular and PCS network size and capacity



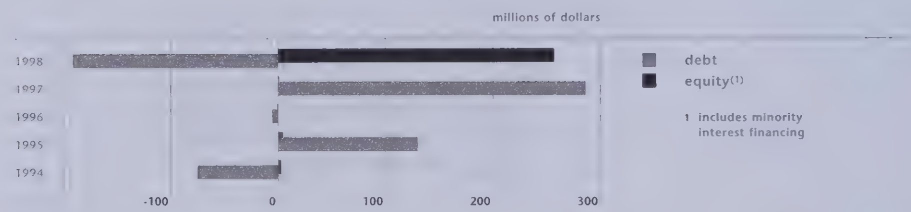
g13. cash flow from operating activities and capital expenditures



g14. gross fixed assets



g15. financing



C. liquidity and capital resources

millions of dollars	1998	1997	1996
Operating activities			
Cash flow from operations	$270.1	$288.2	$235.8
Other operating activities	98.2	(148.3)	(30.9)
	368.3	139.9	204.9
Investing activities			
Capital expenditures	(392.5)	(428.7)	(329.2)
Divestitures and other	3.2	2.0	105.9
Investments and acquisitions	(12.4)	(6.5)	(44.2)
	(401.7)	(433.2)	(267.5)
Free cash flow	(33.4)	(293.2)	(62.6)
Financing activities			
Debt	(191.2)	286.4	(5.6)
Equity and other	256.9	0.7	(0.5)
Decrease (increase) in cash	(32.3)	6.1	68.7
	33.4	293.2	62.6

Cash flow from operating activities increased by $228.4 million to $368.3 million in 1998 mainly as a result of lower working capital requirements, partly offset by lower cash flow from operations.

The increase in working capital in 1997 of $148.3 million resulted mainly from the purchase of analog handsets for resale to distributors across Canada in the fourth quarter of 1997. The decrease in working capital in 1998 resulted from cash collected from sale of these handsets and the Company's general efforts in managing working capital. (See Note 15 to the Consolidated Financial Statements for details of working capital changes.)

Cash flow from operations decreased due to lower cellular and PCS EBITDA and higher interest charges, partly offset by lower current income taxes.

Cash required for investing activities decreased by $31.5 million to $401.7 million during the year due to lower capital expenditures ($36.2 million), partly offset by higher acquisitions ($5.9 million).

Capital expenditures in 1998 were $392.5 million or $36.2 million lower than in 1997. The decrease resulted from lower spending on the Company's analog cellular network, partly offset by higher spending on its digital PCS network in order to increase its capacity and its geographic coverage from 55% to 70% of the population in its licensed territory. As of December 31, 1998, approximately $438.2 million has been invested in its digital **PCS network, including $227.6 million in 1998.**

Divestitures and other totaled $3.2 million in 1998. In December, the Company sold its service agreement with TMI Communications and Company, Limited Partnership for $3.0 million in cash. Under the terms of the sale agreement, the Company is also entitled to receive future payments based on after-tax savings realized by the purchaser on the drawdown of the airtime minutes. The amount of such payments cannot be estimated at this time. The transaction resulted in a $3.0 million gain on sale as the Company had fully provided for the reduced **carrying value of the asset in prior years.**

Investments and acquisitions in 1998 and 1997 consist mainly of investments in the IRIDIUM satellite project made through Iridium Canada, in which BCE Mobile holds a 47.6% interest.

Cash flow from investing activities exceeded operating activities by $33.4 million in 1998 ($293.2 million in 1997). In addition, the Company repaid $85.0 million in short-term loans from its parent, BCE Inc., in January, repaid $4 million of Bell Mobility Cellular senior unsecured debentures, series B, in August and repaid $100 million of Bell Mobility Cellular senior unsecured debentures, series D, in October. These requirements were funded with an issue of 7.4 million common shares in March with net proceeds totaling $256.9 million. At December 31, 1998, the Company's debt to total capital ratio was 38%, compared to 54% at the end of 1997.

The Company has unsecured revolving credit facilities totaling $380 million. At December 31, 1998, there were no amounts drawn under these facilities. (See Note 10 to the Consolidated Financial Statements for details of the financing agreements.) The Company anticipates that capital expenditures for 1999 will be approximately $400 million. Cash generated from operations, together with existing credit facilities, is expected to provide the Company with the financial resources necessary to fund anticipated capital and other expenditure requirements, operating costs and debt service requirements through the end of 1999. BCE Mobile will consider meeting a portion of its financing requirements for 1999 with additional term securities, if market conditions prove advantageous.

D. risks and uncertainties

competition

The Canadian wireless telecommunications industry is highly competitive. The year 1998 was the first year that four wireless competitors were in the Canadian wireless market for an entire year, making 1998 the most competitive year in the history of the Canadian wireless telecommunications industry. BCE Mobile competes directly with three other wireless service providers with aggressive product and service introductions, pricing and marketing. The Company expects competition to continue to increase through the development of new technologies, products and services.

Industry Canada continues to reserve 40 MHz of spectrum in the 1.9 GHz band for future use, which potentially could be licensed to the Company, competitors or companies not currently holding cellular or PCS licenses. The number of competitors may also increase if wireless system operators choose to sell wireless services in bulk to other companies for resale to the public.

BCE Mobile continues to benefit from its participation in Mobility Canada, which is owned and operated by the wireless affiliates or divisions of Canada's major telephone companies. Mobility Canada provides support to its owner companies in the delivery of wireless services to their subscribers. The Mobility Canada alliance is reviewed on a periodic basis by its owners in light of changing Canadian wireless industry dynamics. Given the intensifying competitive environment for telecommunications services in Canada, Mobility Canada members are currently reviewing their national alliance. The potential outcome of this review cannot be determined at this time.

The market for paging services in Canada is also highly competitive. The Company currently competes with numerous other local and national paging companies.

rapid technological change

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of digital and other upgrades to existing analog wireless systems, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products, and enhancements to and changes in end-user requirements and preferences. Such continuing

technological advances make it difficult to predict the extent of future competition with cellular and PCS and paging services. As a result, there can be no assurance that existing, proposed or as yet undeveloped technologies will not become dominant in the future and render cellular, PCS or paging systems less profitable or even obsolete.

The operations of the Company depend in part upon the successful deployment of continually evolving wireless communications technologies, which will require significant capital expenditures to deploy. There can be no assurance that such technologies will be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance. The Company may be required to make more capital expenditures than are currently expected if suppliers fail to meet anticipated schedules, if a technology's performance falls short of expectations, or if commercial success is not achieved.

PCS operations

The Company launched PCS service in October 1997. The Company is continuing to incur significant costs to develop a PCS customer base, including capital expenditures, promotional offerings and handset subsidies. Competition is intense in the PCS market with four PCS service providers in each service area. In addition, increases in the Company's PCS customer base will result in the reduction, over time, of the Company's existing cellular customer base. In particular, the Company has focused on migrating its existing high-usage cellular customers to PCS. While the Company believes its PCS operations will eventually become profitable and generate positive cash flow, building its PCS customer base will continue to adversely affect the Company's profitability and its margins in the short to medium term.

IRIDIUM satellite service

BCE Mobile, primarily as a shareholder of Iridium Canada Inc., is participating in the $7.5 billion IRIDIUM mobile communications satellite project. On November 1, 1998, IRIDIUM launched the first global commercial wireless communications network combining the worldwide reach of 66 low-earth-orbit satellites with land-based wireless systems.

Iridium Canada Inc. holds 3.7% of Iridium, L.L.C. and 20% of the project's North American gateway. At December 31, 1998, BCE Mobile had invested US $51.4 million (C $70.7 million) in cash in the project. Additional funding will be required to fund the construction and initial losses of the project's North American gateway.

Management cannot predict either the extent of the eventual market for IRIDIUM satellite services or the rate at which it will develop.

year 2000 issue

The "Year 2000 Issue" is a general term used to refer to certain technological and business implications of the arrival of the new millennium. These result from computer programs being written using two digits, rather than four, to define an applicable year. If not Year 2000 ready, computer applications that have date-sensitive software may recognize a date expressed as "00" as the year 1900 rather than the year 2000.

The practical consequences of the Year 2000 Issue are a significant risk and challenge to BCE Mobile, as a telecommunications company, because its businesses are dependent on complex systems and technology which have date-sensitive aspects. The Year 2000 Issue could impact most of the Company's operations, including its networks (on their own and jointly with its partners), the services provided to its customers and its own internal systems and support activities.

BCE Mobile continues to give top priority to the Year 2000 Issue. In 1997, a Year 2000 project management office was established with the mandate of setting standards for project structure, reporting pro-

vendors) and the preparation of an outline of the project plan, including milestones and dates. Representatives from each of the Company's business units were brought together to form a Year 2000 task force. The mandate of the Year 2000 project management office and task force is to ensure that the Company's systems, network and services, which are dependent on date sensitive information, continue to operate properly before and after January 1, 2000. The project is reviewed on a regular basis with BCE Mobile executives and progress reports are also provided on a quarterly basis to the BCE Mobile Audit Committee and Board of Directors.

At the outset of BCE Mobile's Year 2000 Issue project, the Company identified those business-critical and customer-affecting systems, applications and network components that required conversion or upgrading for Year 2000 readiness.

As of December 31, 1998, BCE Mobile had completed the majority of the efforts required to convert or upgrade, test and deploy components of its networks for Year 2000 readiness. Similarly, as of December 31, 1998, the renovation, upgrade and code conversion of the majority of the Company's information systems and infrastructure were substantially complete. It is anticipated that all of the Company's business critical applications will be substantially complete by July 1999. With respect to non-business critical assets, conversion and testing will be substantially complete in the third quarter of 1999.

Information technology applications and network components are subject to a series of date-related tests in order to ensure that they will continue to work before and after January 1, 2000. BCE Mobile, in cooperation with other members of Mobility Canada and members of the Stentor alliance, has begun to conduct national interoperability tests and will continue to do so throughout 1999.

BCE Mobile estimates that it will spend approximately $30 million to address the Year 2000 Issue. Total expenditures for the project, to December 31, 1998, were approximately $12 million. The costs of the project and the date on which the Company plans to complete the Year 2000 modifications and testing are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. While the Company is making significant progress with respect to Year 2000 readiness, there can be no assurance that these estimates will be achieved and actual results could differ materially from those planned. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

It is important to note that there are other risks and issues associated with a project of this scope, such as a delay in the release of compliant products and services from suppliers. Such delays could adversely impact the Company's ability to meet its schedule. An ongoing evaluation of risks associated with such delays may require the Company to establish alternative supply channels for products or services. The Year 2000 Issue is further complicated by the Company's dependency on applications and systems that interact with those of its customers and other third parties which are beyond the control of the Company, but whose failure to make their systems Year 2000 ready could materially impact the Company.

In order to mitigate risk and manage relationships with suppliers, BCE Mobile has established a vendor management program to ensure that the products and services they deliver are or will be Year 2000 ready. As of December 31, 1998, the Company had substantially completed its due diligence process with its suppliers, and intends to continue to monitor its suppliers to ensure that their products and services will be Year 2000 ready. There can be no assurance that products or systems of other companies, which BCE Mobile or its customers use or rely upon, will be converted in a timely and effective manner, or that a failure to convert by another company or a conversion that is incompatible with the Company's systems would not have material adverse effects on the Company or its customers.

In addition to vendor management, the Company will ensure that contingency plans will be activated should any significant failure or delay occur as a result of the Year 2000 Issue. The Company anticipates that it will have substantially completed the development of its contingency plans by the second quarter of 1999.

regulation

The operation of cellular, PCS and other radio-telecommunications systems in Canada is subject to initial licensing requirements and the oversight of Industry Canada. Operating licenses are issued at the discretion of the Minister of Industry pursuant to the Radiocommunication Act. Industry Canada grants cellular and PCS licenses for a maximum term of five years. The Company's cellular and PCS licenses will expire on March 31, 2001 and April 30, 2001, respectively. Industry Canada has the authority at any time to require modifications to the license conditions applicable to the provision of such services in Canada to the extent necessary to ensure the efficient and orderly development of radiocommunication facilities and services in Canada. Industry Canada can revoke a license at any time for failure to comply with its terms. At this time, the Company knows of no reason why its current licenses will not be renewed as they expire.

In October 1998, Industry Canada issued Canada Gazette Notice DGTP-015-98 soliciting public comment on whether to continue, modify or rescind the application of a limit on the aggregate amount of spectrum that may be held by PCS providers. At the time of the initial selection of PCS licensees in December 1995, Industry Canada adopted a Spectrum Cap Policy which was set at 40 MHz and consists of frequency assignments for PCS at 1.9 GHz, cellular radiotelephony and similar public high mobility radiotelephony services. BCE Mobile currently has a license for 25 MHz of cellular spectrum and 10 MHz of PCS spectrum.

In December 1998, the Canadian Radio-television and Telecommunications Commission ("CRTC") received an application to impose wireless number portability on the industry. The CRTC has not yet provided any indication as to how it may proceed on this matter.

radio frequency emission concerns

Media reports have suggested that certain radio frequency emissions from cellular telephones may be linked to certain medical conditions such as cancer. In addition, certain interest groups have requested investigations into claims that radio transmissions from handsets used in connection with wireless technologies pose health concerns and cause interference with hearing aids and other medical devices. There can be no assurance that the findings of such studies will not have a material effect on the Company's business or will not lead to governmental regulation. The actual or perceived health risks of wireless communications devices could adversely affect wireless communications service providers through reduced subscriber growth, reduced network usage per subscriber, threat of product liability lawsuits or reduced availability of external financing to the wireless communications industry.

economic fluctuations

The Company's performance is affected by the general condition of the economy, with demand for wireless services and the amount of wireless use tending to decline when economic growth and retail activity decline. It is not possible for the Company to accurately predict economic fluctuations and the impact of such fluctuations on its performance.

management's responsibility for financial statements

The accompanying consolidated financial statements of BCE Mobile Communications Inc. and its subsidiaries (collectively "BCE Mobile" or the "Company"), and all information in this annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements of management and in their opinion present fairly BCE Mobile's financial position, results of operation and changes in financial position. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of BCE Mobile, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports a program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that BCE Mobile's assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, a majority of whose members are outside directors. The audit committee reviews the company's annual consolidated financial statements and other information in the annual report and recommends their approval by the board of directors. The internal and the shareholders' auditors have free and independent access to the audit committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, chartered accountants, and their report is presented on page 33.

February 19, 1999

Randall J. Reynolds
President and
Chief Executive Officer

David A. Lazzarato
Senior Vice-President
and Chief Financial Officer

auditors' report

To the Shareholders of BCE Mobile Communications Inc.

We have audited the consolidated balance sheets of BCE Mobile Communications Inc. as at December 31, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1998 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
February 19, 1999

Deloitte & Touche LLP
Chartered Accountants

consolidated balance sheets

as at December 31 – thousands of dollars	1998	1997
assets		
Current		
Cash and short-term investments	$ 16,502	$ —
Accounts receivable (Note 3)	207,828	306,730
Income taxes receivable	7,837	—
Due from related companies (Note 21)	1,274	—
Inventories	37,946	97,292
Prepaid expenses and other current assets	26,536	15,723
	297,923	419,745
Investments (Note 4)	72,156	64,259
Fixed assets (Note 5)	1,282,412	1,128,909
Licenses and permits, net of accumulated amortization of $13,613 (1997 — $10,865)	37,217	39,927
Deposit on long-term contract (Note 6)	—	24,900
Other assets (Note 7)	25,846	13,362
	$1,715,554	$1,691,102
liabilities		
Current		
Bank overdraft, arising from outstanding cheques	$ —	$ 15,776
Accounts payable and accrued liabilities (Note 8)	215,818	251,208
Income taxes payable	—	15,151
Due to related companies (Note 21)	—	9,220
Deferred revenue	50,511	44,357
Short-term loans from parent (Note 9)	—	85,000
Current portion of long-term debt (Note 10)	2,324	106,106
	268,653	526,818
Long-term debt (Note 10)	541,578	530,526
Other long-term liabilities	—	309
Deferred income taxes	27,052	14,039
	837,283	1,071,692
shareholders' equity		
Share capital and contributed surplus (Note 11)	732,336	471,409
Retained earnings	145,935	148,001
	878,271	619,410
	$1,715,554	$1,691,102

Commitments and contingent liabilities (Note 22)

On behalf of the Board

Ronald W. Osborne
Director

Robert A. Ferchat
Director

consolidated statements of income

for the years ended December 31 – thousands of dollars	1998	1997	1996
Revenue			
Cellular and PCS service	$ 928,893	$ 863,293	$ 735,864
Paging service	75,028	71,780	68,300
Equipment sales and other	290,283	317,639	149,318
	1,294,204	1,252,712	953,482
Operating costs	534,484	463,369	279,177
Selling expenses	262,422	228,403	210,967
General and administrative expenses	193,914	195,593	160,836
Operating income before depreciation, amortization and special charges	303,384	365,347	302,502
Depreciation and amortization	245,403	202,172	170,217
Special charges (Note 12)	—	—	70,620
Operating income	57,981	163,175	61,665
Interest expense	47,527	42,173	34,708
Other items (Note 13)	(2,853)	(495)	(64,695)
Income before income taxes	13,307	121,497	91,652
Income taxes (Note 14)			
Current	(9,456)	37,386	34,451
Deferred	22,551	13,202	(6,735)
	13,095	50,588	27,716
Net income	$ 212	$ 70,909	$ 63,936
Earnings per share (dollars)	$ 0.00	$ 1.02	$ 0.92
Average number of common shares outstanding (thousands)	75,354	69,363	69,346

consolidated statements of retained earnings

for the years ended December 31 – thousands of dollars	1998	1997	1996
Retained earnings at beginning of year	$ 148,001	$ 77,092	$ 13,156
Net income	212	70,909	63,936
Cost related to issuance of common shares — net of income taxes	(2,278)	—	—
Retained earnings at end of year	$ 145,935	$ 148,001	$ 77,092

consolidated statements of changes in financial position

for the years ended December 31 – thousands of dollars	1998	1997	1996
operating activities			
Net income	$ 212	$ 70,909	$ 63,936
Items not affecting cash			
Depreciation and amortization	245,403	202,172	170,217
Deferred income taxes	22,551	13,202	(6,735)
Share of net loss (income) of associated companies	4,449	1,245	(137)
Non-controlling interest	—	—	(1,350)
Special charges	—	—	70,620
Gain on sale of investments	(3,000)	—	(66,495)
Other	495	655	5,751
Cash flow from operations	270,110	288,183	235,807
Change in working capital (Note 15)	98,234	(148,245)	(30,874)
	368,344	139,938	204,933
investing activities			
Capital expenditures	(392,549)	(428,746)	(329,231)
Proceeds of disposal of investments	3,000	—	78,683
Refund of deposit	—	—	27,198
Acquisitions and investments	(12,381)	(6,476)	(44,178)
Other	178	2,067	30
	(401,752)	(433,155)	(267,498)
free cash flow	(33,408)	(293,217)	(62,565)
financing activities			
Issue of long-term debt	—	300,000	90,096
Repayment of long-term debt	(106,245)	(95,818)	(95,706)
Short-term loans from parent	(85,000)	85,000	—
Debt issue costs	—	(2,759)	—
Issue of common shares	260,927	657	444
Share issue costs	(3,996)	—	—
Other	—	—	(996)
	65,686	287,080	(6,162)
cash position			
Increase (decrease) during the year	32,278	(6,137)	(68,727)
At beginning of year	(15,776)	(9,639)	59,088
At end of year	$ 16,502	$ (15,776)	$ (9,639)
other information			
Cash interest paid	$ 49,808	$ 37,037	$ 35,166
Cash income taxes paid	28,399	52,953	30,453
	$ 78,207	$ 89,990	$ 65,619

notes to consolidated financial statements

December 31, 1998

1. nature of operations

BCE Mobile Communications Inc. ("BCE Mobile" or the "Company") and its subsidiaries, operating under the Bell Mobility banner, provide wireless communications services to customers in Canada. The Company offers cellular, digital personal communications services ("PCS"), paging and data communications services in Ontario and Quebec. BCE Mobile is also involved in airline passenger communications and the sale of wireless communications equipment and private radio systems.

a. basis of presentation

At December 31, 1998, the Company was 65.3% owned by BCE Inc. ("BCE"). BCE Mobile is a holding company, which carries on substantially all of its operations through its subsidiaries, principally — Bell Mobility Cellular Inc. ("Bell Mobility Cellular") and Bell Mobility Paging Inc. ("Bell Mobility Paging"), as well as through Skytel Communications Corporation, and Bell Mobility Radio Inc. ("Bell Mobility Radio"). All subsidiaries are consolidated.

BCE Mobile uses the equity method to account for investments in companies and other business ventures over which it exercises significant influence. The Company uses the cost method to account for portfolio investments.

b. reclassification of certain revenues and expenses

Effective January 1, 1998, the Company reclassified revenues generated by cellular and PCS customers when they travel outside Bell Mobility's coverage area; it now reports outbound roaming revenues in service revenues, with the associated costs in operating costs. Previously, the revenues and costs were netted against one another and recorded in operating costs. The new method better reflects the value of all services provided to Bell Mobility customers. Data for 1997 and 1996 have been reclassified to reflect the new presentation. The impact on 1997 service revenues and operating costs has been to increase both items by $43,611,000 (1996 — $27,176,000). The change in method has no impact on net income.

Certain other previously reported figures have been reclassified to conform with the current presentation.

2. significant accounting policies

a. inventories

Inventories consist of cellular and PCS phones, pagers and mobile radios for resale and spare parts. The inventories are valued at the lower of cost and net replacement cost. Cost is determined using the weighted average cost method.

b. prepaid expenses and other current assets

Prepaid expenses and other current assets consist primarily of government license fees which are amortized over a twelve-month period.

c. selling and equipment costs

The Company has various types of selling expenditures as well as equipment costs, all of which are expensed on or prior to new subscriber activations. Handset subsidies are expensed upon subscriber activation.

significant accounting policies (continued)

d. depreciation and amortization

Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Cellular and PCS network equipment	
Cell sites	8 years
Switches	10 years
Microwave	12 years
Test	5 years
Rental pagers	3 years
Paging network equipment	10 years

Equipment installed on aircraft	10 years
Other telecommunications equipment	3 to 8 years
Office equipment	10 years
Computer hardware and software	3 to 5 years
Buildings	40 years
Leasehold improvements	Lease term

e. licenses and permits

This asset represents the cost of acquiring the right to transmit radio signals in a given licensed area, less accumulated amortization. The amortization is computed on a straight-line basis over a 20-year period. Amortization for the year amounted to $2,748,000 (1997 — $2,723,000; 1996 — $2,445,000).

Management reviews the carrying value of the licenses and permits on an ongoing basis to determine if impairment has occurred. The determination as to whether an impairment has occurred is made by comparing the carrying value to the projected undiscounted operating cash flows, less capital expenditures, of the related activity.

f. income taxes

The Company follows the tax allocation method of accounting for income taxes whereby the income taxes charged against income for the period are computed on the basis of accounting income rather than taxable income. Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial statement purposes.

g. deferred revenue

Deferred revenue consists of cellular and PCS system license fees, prepayments under certain cellular, PCS and paging customer contracts and other amounts billed to customers in advance. System license fees, when paid in advance, are amortized to revenue over a 12-month period ending on the anniversary date of billing. Prepayments are amortized to revenue over the term of the contract. Other amounts billed in advance are recognized as revenue in the month the service is rendered.

h. financial instruments

BCE Mobile periodically uses financial instruments to manage interest and foreign exchange risk exposures. The Company does not actively trade derivative financial instruments.

Gains and losses on forward and cross-currency swaps used to manage exposure to foreign exchange rates are recognized on the same basis as the gains and losses on the hedged item. Amounts receivable or payable under cross currency swaps used to hedge debt instruments are disclosed as separate items on the consolidated balance sheet, and not netted with the related debt instrument. The amounts receivable or payable under the swaps which relate to interest payments are accrued and recorded as adjustments to interest expense.

significant accounting policies (continued)

i. use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas requiring significant estimates include the useful lives of capital assets, the recoverability of long-term investments and intangible assets. Actual results could differ from those estimates.

3. accounts receivable

thousands of dollars	1998	1997
Receivables from cellular, PCS and paging services	$ 163,495	$177,350
Receivables from equipment sales and other operations	53,373	137,233
Allowance for doubtful accounts	(9,040)	(7,853)
	$ 207,828	$306,730

4. investments

thousands of dollars		1998	1997
Iridium Canada	— common equity (a)	$ 40,292	$43,457
	— notes receivable (b)	14,518	7,164
Iridium L.L.C.	— preferred shares (c)	10,956	10,956
Other		6,390	2,682
		$ 72,156	$64,259

a. At December 31, 1998, BCE Mobile owned 47.6% of the voting shares of Iridium Canada Inc. ("Iridium Canada"). The investment is accounted for using the equity method, whereby the Company's pro rata portion of Iridium Canada's net loss adjusts the carrying value of the investment. Under certain circumstances, the Company has also agreed to invest up to a further US $6.7 million in common equity of Iridium Canada.

Iridium Canada has a 3.7% interest in common shares of Iridium L.L.C., a satellite service operator. This investment is subject to certain restrictions that limit the ability of member investors to transfer their interests.

b. The notes receivable from Iridium Canada are interest bearing and are repayable on demand.

c. This investment is accounted for using the cost method. Each preferred share is convertible into 18.51 common shares of Iridium L.L.C. at any time at the option of the Company.

5. fixed assets

thousands of dollars	1998 cost	1998 net book value	1997 cost	1997 net book value
Cellular and PCS network equipment				
Cell sites	$1,109,456	$ 614,582	$ 946,789	$ 531,537
Switches	320,830	212,696	264,481	183,687
Microwave	228,412	93,790	204,866	85,806
Test	46,981	16,258	38,659	11,359
	1,705,679	937,326	1,454,795	812,389
Rental pagers	68,542	15,499	67,436	19,139
Paging network equipment	60,630	30,661	55,296	29,658
Equipment installed on aircraft	34,271	18,365	33,187	19,721
Other telecommunications equipment	28,955	9,846	24,103	7,056
Office equipment	82,599	33,392	75,262	31,804
Computer hardware and software	292,200	112,349	224,417	97,962
Land and buildings	10,579	9,734	10,127	9,458
Leasehold improvements and other	38,220	20,178	28,925	16,946
Assets under construction	95,062	95,062	84,776	84,776
	$2,416,737	$1,282,412	$2,058,324	$1,128,909

6. deposit on long-term contract

As a part of the reorganization of Telesat Mobile Inc. ("TMI") in 1993, BCE Mobile agreed to exchange its $30,000,000 investment in debentures of TMI for a service agreement with TMI Communications and Company, Limited Partnership ("TMI Communications"), TMI's successor company. A general partner, which is 100% owned by BCE, holds TMI Communications. Under this seven-year agreement, TMI Communications was to provide 50 million minutes of satellite capacity to BCE Mobile at no additional cost during the first five years of the contract's term. During the last two years of the contract, BCE Mobile had agreed to purchase an additional 10 million minutes of satellite capacity at the lower of market rates or $1.00 per minute.

The deposit was being amortized as the minutes of satellite service were sold to BCE Mobile's customers, subject to a minimum annual amortization schedule established when the contract's term commenced. Amortization for the year amounted to $4,796,000 (1997 — $4,200,000; 1996 — $900,000).

In January 1998, BCE Mobile and TMI Communications entered into a new service provider agreement, which set out new terms and conditions for satellite minute usage and eliminated the obligation to purchase any additional minutes.

In December 1998, the Company sold its service agreement with TMI Communications for $3,000,000 in cash. Under the terms of the sale, the purchaser assumed all obligations and liabilities associated with the agreement. BCE Mobile is also entitled to receive future payments based on after-tax savings realized by the purchaser on the drawdown of the airtime minutes. The amount of such payments cannot be estimated at this time. The transaction resulted in a $3,000,000 gain on sale as the Company had fully provided for the reduced carrying value of the asset in prior years.

7. other assets

thousands of dollars	1998	1997
Debenture issue costs, net of accumulated amortization	$ 2,768	$ 3,439
Cross-currency swap receivable (Note 10)	22,575	9,060
Long-term receivables and other	503	863
	$25,846	$13,362

The debenture issue costs are amortized on a straight-line basis over the term of the debentures. Amortization charges for the year amounted to $689,000 (1997 — $383,000; 1996 — $427,000).

8. accounts payable and accrued liabilities

thousands of dollars	1998	1997
Trade accounts payable	$ 97,692	$105,094
Interest payable	12,794	15,075
Payroll-related liabilities	27,569	26,622
Accrued liabilities	77,763	104,417
	$215,818	$251,208

9. short-term loans from parent

These short-term loans from BCE bear interest at 4.72% and were fully repaid in January 1998.

10. long-term debt

thousands of dollars	1998	1997
Bell Mobility Cellular		
Senior unsecured debentures		
Series B, bearing interest at 12.9%, due on August 14, 1998	$ —	$ 4,000
Series D, issued at 101.91, bearing interest at 8.3%, due on October 23, 1998	—	100,000
Series E, bearing interest at 7.3%, due on January 8, 2007	150,000	150,000
Series F, bearing interest at 6.55%, due on June 2, 2008	150,000	150,000
Senior unsecured notes		
Series 1, issued for US $150,000,000, bearing interest at 6.55%, due on August 15, 2000 (see Note 10(d))	229,575	216,060
Bell Mobility Radio		
Term loan, bearing interest at 10.28%, and maturing in December 2003. The loan is being repaid in equal quarterly instalments of $924,000, including interest and principal.	14,327	16,422
Other	—	150
	543,902	636,632
Less: current portion	2,324	106,106
	$541,578	$530,526

Minimum instalments on long-term debt are as follows:

thousands of dollars	1999	2000	2001	2002	2003
	$ 2,324	$232,135	$ 2,835	$ 3,137	$ 3,461

long-term debt (continued)

a. Bell Mobility Cellular has entered into an agreement with a syndicate of Canadian financial institutions for a $250,000,000, unsecured revolving credit facility, maturing in 2002. Funds advanced under the facility are available at Canadian bank prime, banker's acceptance rates plus 0.25%, and rates of interest based on U.S. base and LIBOR rates. At December 31, 1998, no amount had been drawn under this facility.

b. Bell Mobility Paging has unsecured revolving bank credit facilities totalling $30,000,000. Funds advanced under the facility are available at Canadian bank prime, banker's acceptance rates plus 0.25%, and rates of interest based on US base and LIBOR rates. These facilities are extendable annually, at the lenders' option. At December 31, 1998, no amount had been drawn on this facility.

c. BCE Mobile has entered into an agreement with a syndicate of Canadian financial institutions for a BCE Mobile $100,000,000, unsecured revolving credit facility, maturing in 2000. Funds advanced under the facility are available at Canadian bank prime, banker's acceptance rates plus 0.25%, and rates of interest based on US base and LIBOR rates. At December 31, 1998, no amount had been drawn under this facility.

d. The foreign currency risk associated with the Series 1, senior unsecured notes has been fully hedged through the use of cross-currency swap agreement. The US $150,000,000 principal, repayable on August 15, 2000, has been converted to Canadian $207,000,000. All semi-annual interest payments relating to these notes have also been converted to Canadian dollars to yield an effective interest rate of 7.99% for the term of the notes (see Note 19(a)).

11. share capital and contributed surplus

authorized

The Articles of the Company provide for an unlimited number of common shares without nominal or par value, and an unlimited number of first and second preferred shares issuable in series.

issued and outstanding

	1998			1997		
	number	stated capital $000	contributed surplus $000	number	stated capital $000	contributed surplus $000
Common shares:	76,773,206	$549,633	$182,703	69,370,899	$288,706	$182,703

During the year, the Company issued 7,400,000 common shares for $260,850,000 in cash, including 4,832,200 shares to BCE. Also, the Company issued 2,307 common shares for $77,000 in cash as a result of the exercise of stock options (1997 — 18,758 shares for $657,000; 1996 — 13,372 shares for $444,000).

share capital and contributed surplus (continued)

stock options

At December 31, 1998, 63,157 common shares remained authorized for issuance under the Company's stock option plans. Under the 1995 Stock Option Plan, options vest three years after the date they are granted, and must be exercised within four years of the vesting date. The exercise price of the options is 100% of the average market price of BCE Mobile common shares on the five trading days immediately preceding each grant date.

In July 1998, the Company adopted the Long-term Incentive (Stock Option) Program (1998), subject to regulatory and shareholder approval. Under this plan, the option period is determined by the Management Resources and Compensation Committee of the Company, but may not exceed ten years after the grant date. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. The exercise price of options is 100% of the average market price of BCE Mobile common shares on the five trading days immediately preceding each grant date.

Details of stock options outstanding are as follows:

	1998	1997
Number of options:		
Outstanding at beginning of year	218,225	194,558
Granted	135,470	42,425
Exercised	(2,307)	(18,758)
Forfeited	(64,894)	—
Outstanding at end of year	286,494	218,225
Exercisable at end of year	61,911	94,977
Ranges of exercise prices:		
Granted	$33.088 to $41.628	$42.380 to $45.415
Exercised	$33.475	$28.975 to $39.850
Outstanding at end of year	$33.088 to $46.125	$33.475 to $46.125
Exercisable at end of year	$37.800 to $46.125	$33.475 to $46.125

12. special charges

a. special charge for technology change

In 1996 the Company recorded a provision of $22,500,000 to facilitate the migration of digital cellular customers who are currently using Time Division Multiple Access ("TDMA") technology to Code Division Multiple Access ("CDMA") technology.

b. write-off of deferred equipment costs

Effective January 1, 1997, the Company no longer defers and amortizes equipment costs associated with certain customer contracts, as current circumstances indicate that the benefit from these expenditures relates more appropriately to current period activities. As a result, in 1996, the Company wrote off the unamortized balance of these deferred costs of $48,120,000.

13. other items

thousands of dollars	1998	1997	1996
Non-controlling interest in net loss of subsidiaries	$ —	$ —	$ (1,350)
Share of net loss (income) of associated companies	4,449	1,245	(137)
Gain on sale of investments and business (a)	—	—	(66,495)
Interest income	(4,295)	(1,468)	(2,713)
Miscellaneous items (b)	(3,007)	(272)	6,000
	$(2,853)	$ (495)	$(64,695)

a. In January 1996, the Company sold its remaining investment in Clearnet Communications Inc. for $65,713,000 in cash, resulting in a gain of $60,357,000.

In September 1996, BCE Mobile sold its interest in Teletech Financial Corporation for net cash proceeds of $12,270,000, resulting in a gain of $6,075,000.

In October 1996, Bell Mobility Radio sold a portion of its private radio business for $700,000. The company disposed of net tangible assets of $637,000, resulting in a gain of $63,000.

b. Miscellaneous items in 1998 are detailed in Note 6.

Miscellaneous items in 1996 include provisions of $5,659,000 for investments and other assets, including a charge to write off the Company's remaining investment and costs associated with its participation in AirLink, L.L.C. ("AirLink"), a company formed in 1995 to bid for licenses for 1.9 GHz PCS service in the "C Block" auctions held by the Federal Communications Commission ("FCC") in the United States. The investments funded a US $20 million deposit made by AirLink for its participation in the auctions and BCE Mobile's share of operating expenses. AirLink withdrew from the auctions in March 1996 and the deposit of $27,198,000 was refunded by the FCC.

14. income taxes

Income taxes included in the statements of income differ from the statutory income tax rate as follows:

	1998	1997	1996
Statutory income tax rate	43.0%	43.0%	42.56%
thousands of dollars			
Income taxes based on the statutory income tax rate	$ 5,722	$ 52,244	$ 39,007
Adjustment resulting from:			
Share of net loss (income) of associated companies	1,913	535	(58)
Amortization of licenses and permits	633	901	847
Non-controlling interest	—	—	(575)
Income tax rate differentials	85	(94)	746
Large corporations tax	3,366	2,551	2,100
Application of tax losses not previously recorded	(303)	(7,399)	(8,301)
Non-taxable portion of capital transactions	—	—	(6,098)
Non-deductible expenses and other adjustments	1,679	1,850	48
Income taxes	$13,095	$50,588	$27,716

15. change in working capital

	1998	1997	1996
thousands of dollars			
Decrease (increase) in current assets			
Accounts receivable	$ 98,902	$(126,911)	$(33,209)
Income taxes receivable	(7,837)	—	—
Due from related companies	(1,274)	—	—
Inventories	59,346	(53,079)	(23,776)
Prepaid expenses and other current assets	(10,813)	(1,644)	(27,080)
Other assets	161	(315)	(18)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	(22,034)	48,042	41,938
Income taxes payable	(15,151)	(16,618)	4,408
Due to related companies	(9,220)	(1,439)	1,852
Deferred revenue	6,154	3,719	5,011
Change in working capital	$ 98,234	$(148,245)	$(30,874)

16. acquisitions and investments

a. During the year, the Company made investments of $12,381,000, consisting principally of investments in the IRIDIUM project of $7,354,000 (1997 — $3,779,000; 1996 — $21,673,000).

b. In April 1996, Bell Mobility Paging purchased certain assets of TeleZone Corporation, principally in Ontario, for cash consideration of $18,782,000. The company acquired net tangible and intangible assets of $1,172,000 and $17,610,000, respectively.

Also in 1996, Bell Mobility Paging purchased interests in the operations of two paging resellers operating in the province of Quebec for $965,000. The company acquired net tangible and intangible assets of $310,000 and $655,000, respectively.

c. In December 1996, the Company purchased the remaining 40% interest in Bell-Ardis Inc. for $2,044,000 in cash, all allocated to net tangible assets.

17. business segments

BCE Mobile defines its business segments based upon the nature of the service provided to customers. The Company operates principally in one business segment – the offering of cellular and PCS communications service, combined with the sale of related wireless equipment. Cellular and PCS service is provided to customers at both the 800 MHz and 1.9 GHz frequencies. The Company's other activities consist of paging, cellular and PCS equipment sales to distributors outside of the Company's territory, the sale of private radio systems, airline passenger communications and wireless consulting services.

Management of the Company evaluates its segments based upon the operating income before depreciation and amortization generated by each. Depreciation and amortization, interest expense and income taxes are managed on a consolidated basis and as such are not allocated to individual segments. There are no inter-segment transactions or significant differences between segment accounting and corporate accounting basis.

December 31, 1998 Business Segment Data

thousands of dollars	cellular and PCS	paging and other	consolidated
Revenues			
Service	$ 928,893	$ 75,028	$1,003,921
Equipment sales	177,047	70,016	247,063
Other	—	43,220	43,220
	1,105,940	188,264	1,294,204
Operating costs and expenses	838,981	151,839	990,820
Operating income before depreciation and amortization	266,959	36,425	303,384
Depreciation and amortization			245,403
Operating income			$ 57,981
Assets	$1,489,214	$226,340	$1,715,554
Capital expenditures	$ 369,300	$ 23,249	$ 392,549

business segments (continued)

December 31, 1997 Business Segment Data

thousands of dollars	cellular and PCS	paging and other	consolidated
Revenues			
Service	$ 863,293	$ 71,780	$ 935,073
Equipment sales	191,587	87,996	279,583
Other	—	38,056	38,056
	1,054,880	197,832	1,252,712
Operating costs and expenses	722,602	164,763	887,365
Operating income before depreciation and amortization	332,278	33,069	365,347
Depreciation and amortization			202,172
Operating income			$ 163,175
Assets	$1,448,863	$242,239	$1,691,102
Capital expenditures	$ 404,440	$ 24,306	$ 428,746

December 31, 1996 Business Segment Data

thousands of dollars	cellular and PCS	paging and other	consolidated
Revenues			
Service	$ 735,864	$ 68,300	$ 804,164
Equipment sales	99,492	15,820	115,312
Other	—	34,006	34,006
	835,356	118,126	953,482
Operating costs and expenses	543,494	107,486	650,980
Operating income before depreciation, amortization and special charges	291,862	10,640	302,502
Depreciation and amortization			170,217
Special charges			70,620
Operating income			$ 61,665
Assets	$1,015,152	$254,115	$1,269,267
Capital expenditures	$ 295,905	$ 33,326	$ 329,231

18.

reconciliation of financial statements prepared under Canadian generally accepted accounting principles ("GAAP") and United States GAAP

Items where significant differences between Canadian and United States GAAP exist, and their impact on the consolidated financial statements are explained below:

a. net income reconciliation

thousands of dollars	1998	1997	1996
Net income, as reported, under Canadian GAAP	$ 212	$70,909	$63,936
Income taxes (i)	943	(256)	(2,008)
Net income under United States GAAP	$1,155	$70,653	$61,928
Earnings per share under United States GAAP	$ 0.02	$ 1.02	$ 0.89

Fully diluted earnings per share figures are not presented since they are anti-dilutive. Net income reported under United States GAAP is equal to the Company's comprehensive income.

b. balance sheet reconciliation

December 31, 1998

thousands of dollars	Canadian GAAP	adjustments	United States GAAP
Assets	$1,715,554		$1,715,554
Liabilities and deferred income taxes	$ 837,283	9,723	$ 847,006
Shareholders' equity	878,271	(9,723)	868,548
	$1,715,554		$1,715,554

December 31, 1997

thousands of dollars	Canadian GAAP	adjustments	United States GAAP
Assets	$1,691,102		$1,691,102
Liabilities and deferred income taxes	$1,071,692	(i) 12,944	$1,084,636
Shareholders' equity	619,410	(i)(12,944)	606,466
	$1,691,102		$1,691,102

(i) income taxes

United States GAAP requires that the impact of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes be accounted for, and adjusted each year for changes to statutory income tax rates. Under Canadian GAAP, the annual income tax provision results from accounting income for tax purposes calculated using income tax rates in effect for each year, without adjustment for subsequent changes in statutory income tax rates.

Also, United States GAAP requires that the income tax benefit of operating losses be recognized in the financial statements, less a valuation allowance when it is more likely than not that the benefit will not be realized in the future. Canadian GAAP applies a stricter test of reasonable assurance or virtual certainty of realization before the income tax benefit of operating losses can be realized. Amounts have been restated to reflect changes to accumulated temporary differences.

19. financial instruments

a. foreign currency and interest rate exposure

The Company uses a cross-currency swap agreement to mitigate foreign exchange and interest rate risk associated with the Series 1 Notes, its only foreign currency denominated debt instrument (see Note 10(d)). Most of the Company's long-term debt is issued at fixed interest rates for fixed terms, minimizing exposure to interest rate fluctuations.

b. credit exposure

The Company is exposed to credit risk in the event of non-performance by the cross-currency swap agreement counterparties and from its accounts receivable. The credit risk of the cross-currency swap agreements arises from the possibility that the counterparties may default on their obligations in instances where the agreements have a positive fair value to the Company. The maximum accounting loss that the Company would incur if the counterparties to the cross-currency swap were to completely fail to perform according to the terms of the agreement is approximately $22,575,000 at December 31, 1998. The counterparties are highly rated financial institutions and the Company does not anticipate any non-performance. BCE Mobile has not required collateral or other security from the counterparties due to its assessment of their creditworthiness. With respect to accounts receivables, concentration of credit risk is limited by the Company's large number of diverse customers. Anticipated bad debt losses have been provided in the allowance for doubtful accounts.

c. fair values

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgement. Therefore, the estimated fair values disclosed cannot be determined with precision and should not be interpreted as being realizable in an immediate settlement of the financial instruments. The carrying values of any financial instruments included in current assets and current liabilities in the consolidated balance sheets approximate their fair value due to the short maturity of these instruments. The estimated fair values of each of the Company's long-term debt instruments is based upon the future cash flows associated with each instrument, discounted using a current market rate for a similar debt instrument of comparable maturity.

financial instruments (continued)

d. estimated fair values of the Company's financial instruments, where the fair value differs from the carrying amounts on the financial statements as at December 31, 1998 and 1997, are as follows:

December 31, 1998

thousands of dollars	carrying amount	estimated fair value
Long-term debt		
Senior unsecured debentures	$300,000	$315,303
Senior unsecured notes Series 1	229,575	234,788
Other long-term debt	14,327	15,736
	$543,902	$565,827
Cross-currency swap receivable	$ 22,575	$ 11,400

December 31, 1997

thousands of dollars	carrying amount	estimated fair value
Long-term debt		
Senior unsecured debentures	$404,000	$412,900
Senior unsecured notes Series 1	216,060	217,000
Other long-term debt	16,572	18,434
	$636,632	$648,334
Cross-currency swap receivable (payable)	$ 9,060	$ (3,200)

20. pensions

Certain employees of the Company and its subsidiaries are covered by a non-contributory, defined-benefit plan that provides for service pensions, based on length of service and rates of pay.

The policy is to fund pension costs through contributions based on actuarial cost methods as permitted by pension regulatory bodies. Such contributions will reflect actuarial assumptions regarding salary projections and future service benefits. The actuarial present value of benefits has been projected to December 31, 1998 using data from the most recent actuarial valuation, which was completed in 1998 and was based on employee data as at January 1, 1998.

The present value of the accrued plan benefits and net assets available to discharge these benefits are as follows:

thousands of dollars	1998	1997
Actuarial present value of benefits:		
Accumulated benefits		
Vested	$25,311	$23,064
Non-vested	7,591	6,918
	32,902	29,982
Effect of salary projection	20,123	16,143
Accrued benefits	$53,025	$46,125
Net assets available for benefits, at market value	$69,114	$62,734

The components of the Company's pension expense are:

thousands of dollars	1998	1997	1996
Service cost	$ 6,588	$ 5,836	$ 6,000
Interest cost on projected plan benefits	3,774	3,223	2,648
Amortized value expected return on plan assets	(4,279)	(3,610)	(2,897)
Net amortization	(989)	(547)	(348)
	$ 5,094	$ 4,902	$ 5,403

Significant assumptions are as follows:

	1998	1997	1996
Expected rate of return	7.5%	7.5%	7.5%
Estimated salary increase	5.0%	6.0%	6.0%

Pension expense is accrued and charged to earnings over employees' working lives. The pension expense was calculated using a value of assets adjusted to market value over a five-year period.

21. related party transactions

Transactions with related parties occurred within the course of normal operations and have been measured at the amounts actually exchanged.

thousands of dollars		revenue	operating costs and expenses	purchase of fixed assets	due to (from) related companies
	December 31, 1998				
Related companies of BCE		$19,036	$50,339	$136,868	$ 3,964
Mobility Canada		11,061	3,614	—	(5,238)
		$30,097	$53,953	$136,868	$ (1,274)
	December 31, 1997				
Related companies of BCE		$17,865	$57,297	$200,019	$ 9,642
Mobility Canada		97	7,103	—	(422)
		$17,962	$64,400	$200,019	$ 9,220
	December 31, 1996				
Related companies of BCE		$15,862	$58,771	$114,781	$ 13,210
Mobility Canada		988	4,692	—	(2,551)
		$16,850	$63,463	$114,781	$ 10,659

See Note 6 for further details of other related party transactions.

22. commitments and contingent liabilities

a. At December 31, 1998, the future minimum lease payments under operating leases that have lease terms in excess of one year are as follows:

thousands of dollars	operating leases
1999	$ 29,482
2000	22,274
2001	19,900
2002	18,614
2003	17,135
thereafter	66,495
Total future minimum lease payments	$173,900

Rent expense applicable to operating leases totalled $27,553,000 for the year ended December 31, 1998 (1997 — $32,989,000; 1996 — $27,887,000).

commitments and contingent liabilities (continued)

b. The Company is contingently liable for lease payments on contracts between subscribers and a financing company should the subscribers default on the lease. The cost to the Company is dependent on the extent of recovery from the subscribers, with a maximum exposure of $5,703,000 (1997 — $13,808,000).

c. The Company has been named as a co-defendant along with other industry leaders in a $52 million lawsuit brought on by a distributor of electronic equipment, including cellular telephones, alleging defendants pursued telephone pricing policies which were in contravention of competition legislation. Management is of the view, supported by counsel, that this suit is of doubtful merit and that the Company has a serious and substantial defence against this action.

Management does not expect that the above action will result in a material adverse impact on the Company.

23. uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. While the Company is addressing the issue, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

quarterly financial data

millions of dollars	1998	Q1	Q2	Q3	Q4
income statement					
Revenues					
Cellular and PCS service		$ 220.8	$ 231.1	$ 244.6	$ 232.5
Paging service		18.9	18.6	19.3	18.3
Equipment sales and other		57.7	86.8	73.0	72.8
Total		297.3	336.5	336.8	323.6
EBITDA		80.0	75.1	85.4	62.9
Depreciation and amortization		59.4	58.1	61.5	66.5
Interest		12.9	12.5	12.1	10.0
Net income		3.1	1.6	5.3	(9.8)
Earnings per share ($)		0.04	0.02	0.07	(0.13)
balance sheet (at December 31)					
Working capital[1]		246.6	197.6	181.7	31.6
Fixed assets — net		1,143.0	1,198.6	1,217.8	1,282.4
Total debt		634.6	640.2	643.9	543.9
Shareholders' equity		881.2	882.0	888.2	878.3
statement of changes in financial position					
Cash flow from operations		67.2	64.6	68.4	69.9
Financing — net		171.3	(0.5)	(4.5)	(100.7)
Capital expenditures		71.1	112.2	78.7	130.5
Cash flow per share ($)		0.95	0.84	0.89	0.91

millions of dollars	1997	Q1	Q2	Q3	Q4
income statement					
Revenues					
Cellular and PCS service[2]		$ 196.5	$ 219.5	$ 224.7	$ 222.5
Paging service		17.1	18.0	17.8	18.9
Equipment sales and other		43.8	37.8	39.4	196.7
Total		257.5	275.3	281.8	438.1
EBITDA		88.0	103.2	106.5	67.6
Depreciation and amortization		47.2	48.5	52.2	54.3
Interest		9.6	10.1	10.3	12.1
Net income		18.0	25.7	25.7	1.5
Earnings per share ($)		0.26	0.37	0.37	0.02
balance sheet (at December 31)					
Working capital[1]		46.7	(5.4)	(31.5)	84.0
Fixed assets — net		940.4	1,011.2	1,058.9	1,128.9
Total debt		504.2	545.6	544.3	721.6
Shareholders' equity		566.1	591.8	617.9	619.4
statement of changes in financial position					
Cash flow from operations		67.1	74.4	75.3	71.4
Financing — net		81.0	40.2	(1.1)	167.0
Capital expenditures		90.2	116.8	98.3	124.1
Cash flow per share ($)		0.97	1.07	1.09	1.03

note 1: excludes debt due within one year
note 2: reflects the reclassification of outbound roaming revenues

historical summary

financial data

millions of dollars	1998	1997	1996	1995	1994	1993	1992	1991[1]	1990[1,2]	1989[1,2]
income statement										
Revenues										
Cellular and PCS service[3,4]	$ 928.9	$ 863.3	$735.9	$620.0	$483.7	$387.3	$334.0	$279.7	$236.3	$149.7
Paging service	75.0	71.8	68.3	58.9	49.1	40.2	32.3	40.6	43.9	42.5
Equipment sales and other	290.3	317.6	149.3	124.2	98.7	84.6	78.9	50.4	50.8	48.7
Total	1,294.2	1,252.7	953.5	803.1	631.5	512.1	445.2	370.7	331.0	240.9
EBITDA	303.4	365.3	302.5	265.7	221.5	168.7	134.9	101.0	87.0	54.2
EBITDA per share ($)	4.03	5.27	4.36	3.83	3.20	2.44	1.95	1.51	1.38	0.88
Depreciation and amortization	245.4	202.2	170.2	147.6	119.5	102.7	92.7	89.6	71.8	54.2
Interest	47.5	42.2	34.7	37.7	35.0	35.0	40.1	44.9	44.4	20.3
Net income (loss)	0.2	70.9	63.9	51.0	36.6	3.6	(3.9)	(17.9)	(25.6)	(16.8)
Earnings (loss) per share ($)	0.00	1.02	0.92	0.74	0.53	0.05	(0.06)	(0.27)	(0.41)	(0.27)
Average common shares (thousands)	75,354	69,363	69,346	69,305	69,265	69,210	69,136	66,928	63,057	61,325
balance sheet										
(at December 31)										
Working capital[5]	$ 31.6	$ 84.0	$ (59.9)	$ 53.5[6]	$ 2.6	$ 15.2	$ (1.9)	$ 9.7	$ 26.6	$ 25.6
Fixed assets — net	1,282.4	1,128.9	895.6	730.1	644.0	647.4	592.2	592.4	549.9	402.2
Total debt	543.9	721.6	423.4	429.0	297.8	373.0	327.1	319.4	386.0	264.4
Shareholders' equity	878.3	619.4	547.8	483.5	430.9	393.4	387.5	390.5	308.2	260.0
Common shares (thousands)	76,773	69,371	69,352	69,339	69,281	69,248	69,153	69,106	64,994	61,992
statement of changes in financial position										
Cash flow from operations	$ 270.1	$ 288.2	$235.8	$213.0	$183.9	$134.7	$ 98.3	$ 58.1	$ 43.8	$ 35.8
Financing — net	65.7	287.1	(6.2)	134.4	(72.4)	51.0	11.7	32.1	194.2	216.3
Capital expenditures	392.5	429.4	329.2	241.8	127.1	162.8	90.2	136.8	215.0	226.3
Cash flow per share ($)	3.58	4.15	3.40	3.07	2.66	1.95	1.42	0.87	0.69	0.58
consolidated ratios										
Cash flow margin (%)[4,7]	23.4	29.2	29.4	31.4	33.5	32.9	30.3	27.2	26.3	22.5
Return on average total capital (%)	4.4	14.0	13.1	14.7	13.5	8.3	5.7	3.7	2.2	(1.1)
Return on average common equity (%)	0.0	12.1	12.4	11.2	8.9	0.9	(1.0)	(5.1)	(9.0)	(6.9)
Debt to total capital (%)	38.2	53.8	43.6	47.0	40.9	48.7	45.8	45.7	56.2	50.8

note 1: restated in 1992 to reflect full expensing of cellular dealer commissions
note 2: restated in 1991 to reflect change in depreciation policy for pagers
note 3: includes PCS starting in 1997
note 4: reflects the reclassification of outbound roaming revenues
note 5: excludes debt due within one year
note 6: includes $59.1 M of cash and short-term investments
note 7: adjusted to recognize billing credits and/or expense hardware costs as incurred
n.a.: not available

other statistics

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
cellular and PCS										
Subscribers	1,475,000	1,221,000	1,044,000	798,000	592,000	421,000	329,000	263,000	209,000	141,000
Gross additions	476,000	328,000	376,000	310,000	242,000	158,000	130,000	121,000	117,000	80,000
Population in licensed area (millions)	18.3	18.2	18.0	17.7	17.5	17.0	16.9	16.7	16.5	16.3
Population served (millions)										
Cellular	17.3	17.3	17.1	16.8	16.6	15.7	15.3	15.0	14.7	13.9
PCS	12.8	10.0								
% of licensed population served										
Cellular	95.0	95.0	95.0	94.9	94.8	92.5	90.5	89.8	89.1	85.3
PCS	70.0	55.0								
Subscribers to population served (%)	8.51	7.04	6.09	4.75	3.57	2.69	2.15	1.76	1.43	1.02
Area served (km^2)										
Cellular	243,000	243,000	243,000	234,000	225,000	221,000	220,000	209,000	207,000	158,000
PCS	17,000	6,000								
Cell sites	1,158	1,056	831	667	555	531	495	446	395	246
Radio channels	29,400	28,900	24,500	21,300	16,700	15,200	14,100	12,900	12,200	7,000
Switches	15	13	11	8	8	7	6	6	5	4
Churn (%/month)	1.4	1.1	1.2	1.3	1.2	1.5	1.9	2.4	2.5	1.9
Usage per sub. (minutes/month)	163	162	159	143	151	146	168	174	204	212
Revenue per sub. ($/month)[4]	60	65	69[7]	77	83	88	96	101	117	111
Revenue per minute ($)[4]	0.37	0.40	0.43[7]	0.54	0.55	0.60	0.57	0.58	0.57	0.52
Uncollectibles (% of revenues)	1.3	1.3	1.2[7]	1.3	1.2	1.2	2.7	4.1	3.6	2.2
Operating cash flow margin										
before acquisition costs (%)[4]	61.7	63.1	64.5[7]	65.4	65.0	61.3	57.3	51.3	53.1	53.1
after acquisition costs (%)[4]	28.7	38.5	36.8[7]	39.1[7]	41.6[7]	41.9	39.4	32.5[1]	31.9[1]	22.9[1]
Cost of acquisition per gross addition										
excluding migrations ($)	578	622	530[7]	527[7]	467[7]	473	458	433[1]	426[1]	567[1]
including migrations ($)	637	647	530[7]	527[7]	467[7]	473	458	433[1]	426[1]	567[1]
paging and other										
Pagers in service	542,000	475,000	396,000	275,000	220,000	181,000	132,000	121,000	145,000	130,000
Revenue per pager ($/month)	12	14	17	20	20	21	21	23	27	n.a.
Data terminals	3,200	2,800	2,200	2,200	2,600	1,800	1,300	1,000	100	0
Airline telephones	10,900	10,000	8,200	7,000	7,000	4,800	4,800	1,050	0	0
consolidated										
Employees (at December 31)	3,160	2,942	2,681	2,442	1,953	1,709	1,882	1,858	1,995	1,946

see opposite page for footnotes

board of directors

Micheline Charest

of Westmount, Quebec, is co-founder of CINAR Corporation and has been Chairman of the Board and Co-chief Executive Officer of said corporation since December 1976. She has served as a director since May 1998. Ms. Charest is also a director of Metro-Richelieu Inc., the Conference Board of Canada, Quebecor Inc. and Teletoon Canada Inc. (Age 45)

Robert A. Ferchat

F.C.A., of Mississauga, Ontario, is Chairman of the Board of BCE Mobile Communications Inc. He was Chairman of the Board and Chief Executive Officer of the Company from May 1995 to January 1999 and was Chairman, President and Chief Executive Officer from November 1994 to April 1995. He has served as a director since November 1994. Mr. Ferchat is also a director of ATS Automation Tooling Systems Inc., Brookfield Properties Corporation, Gennum Corporation, GST Telecommunications Inc., the Junior Achievement of Metro Toronto and York Regions and The Learning Institute. He is a former Chairman, President and Chief Executive Officer of TMI Communications and President of Northern Telecom Canada Ltd. (Age 64)

Paul V. Godfrey

of Willowdale, Ontario, is President and Chief Executive Officer of Sun Media Corporation. He is a former President and Chief Executive Officer of The Toronto Sun Publishing Corporation. Mr. Godfrey has served as a director since May 1998. He is also a director of Astral Communications Inc., Ontario Power Corporation and the Sun Media Corporation. (Age 60)

Edward C. Lumley

(The Honourable, P.C.) of South Lancaster, Ontario, is Vice-Chairman of the Board of Nesbitt Burns Inc. He has served as a director since April 1995. Mr. Lumley is also a director of Air Canada, Canadian National, Dollar-Thrifty Automobile Group, Magna International Inc. and Nesbitt Burns Inc. He is a former Vice-chairman of the Board of Burns Fry Limited and also a former Chairman of the Board of Noranda Manufacturing Group Inc. (Age 59)

John A. MacDonald

of Manotick, Ontario, is President and Chief Operating Officer of Bell Canada. He was appointed as a director of the Company in January 1999. He is also a director of Bell ActiMedia Inc., CANARIE Inc., CGI Group Inc., Bruncor Inc., BCE Capital Inc., Canada Trust, MediaLinx Interactive, Limited Partnership and Teleglobe Inc. Prior to joining Bell Canada in 1994 as Chief Technology and Network Officer, Mr. MacDonald was President and Chief Executive Officer of The New Brunswick Telephone Company, Limited. (Age 45)

Léonce Montambault

of Sillery, Quebec has served as a director since July 1990. He is also a director of the Groupe Sodisco-Howden Inc., National Bank of Canada and National Bank Life Insurance Company. Mr. Montambault is a former Chairman of the Board and Chief Executive Officer of Bell Canada. (Age 66)

Jean C. Monty

C.M. of Montreal, Quebec is President and Chief Executive Officer of BCE Inc. and Chairman of the Board and Chief Executive Officer of Bell Canada. He has served as a director since October 1997. Mr. Monty was Chairman of the Board of BCE Mobile Communications Inc. from December 1987 to March 1988 and a director from December 1987 to October 1992. He is also a director of Bank of Montreal, BCE Inc., Bell Canada, Bell Canada International Inc., Bell Satellite Services Inc., Bombardier Inc., CGI Group Inc., Northern Telecom Limited, SNC-Lavalin Group Inc., Teleglobe Inc. and Telesat Canada. Mr. Monty was Vice-Chairman of the Board and Chief Executive Officer of Northern Telecom Limited from February 1997 to October 1997 and President and Chief Executive Officer of said corporation from March 1993 to February 1997. (Age 51)

Ronald W. Osborne

F.C.A., of Toronto, Ontario, is President and Chief Executive Officer of Ontario Hydro. He served as a director from April 1995 to November 1997 and was re-appointed in May 1998. He is also a director of Noranda Inc. and Sun Life Assurance Company of Canada. Mr. Osborne was President and Chief Executive Officer of Bell Canada from September 1997 to February 1998, President of BCE Inc. from May 1996 to August 1997 and Executive Vice-President and Chief Financial Officer of BCE Inc. from January 1995 to May 1996. He is a former President and Chief Executive Officer of MacLean Hunter Limited. (Age 52)

John H. Panabaker

C.M., of Waterloo, Ontario, has served as a director since July 1989. He is also a director of Bell Canada and Economical Mutual Insurance Company and its subsidiaries. Mr. Panabaker has held several senior management positions at Mutual Life of Canada, including Chairman of the Board. He is a former Chairman of the Board of the Life Management Association and is currently a member of the Administrative Board of the McMaster Museum of Art. (Age 70)

Randall J. Reynolds

of Toronto, Ontario, is President and Chief Executive Officer of BCE Mobile Communications Inc. He has served as a director since December 1998. Mr. Reynolds is also a director of BCE Capital Inc., Bell Mobility Cellular Inc., Bell Mobility Paging Inc., Bell Mobility Radio Inc., Skytel Communications Corporation, Mobility Personacom Canada Ltd. and The National Dispatch Center Inc. Mr. Reynolds was President and Chief Operating Officer of the Company from January 1998 to January 1999. He was Senior Vice-President, Market & Network Development from July 1996 to January 1998 and Vice-President, Strategic Planning from September 1994 to July 1996. (Age 46)

John D. Thompson

of Town of Mount Royal, Quebec, is Deputy Chairman of the Board of Montreal Trustco Inc. He has served as a director since July 1992. Mr. Thompson is also a director of AXA Insurance, Bank of Nova Scotia Trust Company, Benvest Capital Inc., Domtar Inc., Montrusco Associates Inc., National Trust Company, Shermag Inc., Transat A.T. Inc. and the MacDonald Stewart Foundation. (Age 64)

committees of the board of directors

Executive Committee
Jean C. Monty, Chairman
Micheline Charest
Robert A. Ferchat
Edward C. Lumley
Randall J. Reynolds

The Executive Committee possesses and exercises, during the intervals between meetings of the Board of Directors, all powers of the Board in the stewardship and direction of the Company, except those which under law a committee of directors has no authority to exercise. In addition, the Executive Committee has specific responsibility for corporate governance matters. The Chairman of the Executive Committee acts as "lead director". The Executive Committee is supported by the Vice-President, General Counsel and Corporate Secretary.

Audit Committee
Ronald W. Osborne, Chairman
Edward C. Lumley
Léonce Montambault
John D. Thompson

The Audit Committee's responsibilities are to review the Company's financial statements, consider the appointment of external auditors, and review internal control and management systems. The Audit Committee also reviews the financial statements of the Company's pension fund and appoints its auditors, and recommends to the Board and monitors the implementation of policies and procedures on environmental matters. The Audit Committee has established direct communication channels with the Company's internal and external auditors to review and discuss specific issues, and is supported by the Senior Vice-President and Chief Financial Officer.

Management Resources and Compensation Committee (MRCC)
John H. Panabaker, Chairman
Paul V. Godfrey
Léonce Montambault
Jean C. Monty

The MRCC reviews, reports and, when appropriate, provides recommendations to the Board on the following matters: the Company's policies in the areas of employee compensation (including pension and other benefits), job evaluation, training and development, recruitment and staffing, employment equity and health and safety; management's performance and officers' remuneration, in accordance with the Company's executive compensation policy; and the administration, funding and investment policies of the Company's pension plan and fund. The MRCC is supported by the Vice-President, Human Resources.

corporate officers

Robert A. Ferchat
Chairman of the Board

Randall J. Reynolds
President and
Chief Executive Officer

Luc Arpin
Senior Vice-President,
Quebec and Corporate Sales

Robert W. Bruce
Senior Vice-President,
Marketing

David A. Lazzarato
Senior Vice-President
and Chief Financial Officer

James S. Lovie
Senior Vice-President,
Sales and Distribution

Michael A. Krebs
Vice-President
and Treasurer

Richard J. Mannion
Vice-President,
General Counsel
and Corporate Secretary

Robert A. Ferchat | Randall J. Reynolds | Luc Arpin | Robert W. Bruce | David A. Lazzarato | James S. Lovie | Michael A. Krebs | Richard J. Mannion

shareholder information

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John P. Gutpell
Director - Investor Relations
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E-mail: jgutpell@mobility.com

annual meeting The annual meeting of BCE Mobile shareholders will take place on Thursday, May 6, 1999 in Montreal, Quebec.

stock listings BCE Mobile common shares are listed on the Montreal, Toronto and New York stock exchanges. BCE Mobile's stock ticker symbol on all exchanges is BCX.

authorized capital The articles of BCE Mobile provide for an unlimited number of common shares without nominal or par value, and an unlimited number of first and second preferred shares, each issuable in series. Currently no preferred shares are outstanding. As of December 31, 1998, there were 76,773,206 common shares outstanding.

dividend policy BCE Mobile's current policy is to reinvest all of its earnings to contribute to the growth of its business, and, consistent with this policy, the Company does not currently expect to pay dividends on its common shares for the foreseeable future. The Board of Directors of BCE Mobile will determine future dividend policy based on the Company's financial condition, capital requirements and other circumstances.

web site Visit our web site at **www.bcemobile.ca** for more information on BCE Mobile. Documents available on our web site include annual and quarterly reports, news releases, annual information forms, notices of annual meetings and management proxy circulars and supplemental information for analysts.

quarterly results BCE Mobile expects to report its 1999 quarterly results on the following dates: April 26, July 26 and October 25, 1999, and January 24, 2000.

share price (TSE & ME)

volume (TSE & ME)

common share price & volume

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
TSE & ME:										
High ($)	43.950	52.000	48.500	49.000	45.250	43.000	33.250	30.000	34.000	39.000
Low ($)	31.500	35.000	39.300	39.000	35.000	31.500	24.250	18.000	14.750	20.375
Close (TSE) ($)	41.500	36.000	40.600	46.125	44.500	41.375	32.000	29.625	18.375	33.000
Volume (000)	22,755	12,244	13,884	12,712	15,519	8,434	10,083	11,067	12,467	16,653
NYSE(1):										
High ($US)	30.580	37.000	35.000							
Low ($US)	21.810	25.125	29.125							
Close ($US)	26.938	25.125	29.625							
Volume (000)	337	150	41							

note 1: began trading on September 10, 1996

other information

environmental policy

BCE Mobile is committed to a corporate policy on the environment that ensures services are provided in an environmentally responsible manner. More specifically, BCE Mobile will strive to:

meet, or where appropriate, exceed the requirements of all relevant legislation;

whenever possible, reuse rather than dispose of, and as well as promote, the recycling and use of recycled materials;

whenever possible, market products that are environmentally safe and which can be reused, recycled or disposed of safely;

educate and train employees to conduct their activities in an environmentally sound manner;

advise customers, agents, and the public of the safe use, transportation, storage and disposal of products and services we provide; and

measure environmental performance by conducting environmental audits and assessing compliance with BCE Mobile's and legal requirements.

auditors

Deloitte & Touche LLP

bankers

Bank of Montreal
Bank of Nova Scotia
Royal Bank of Canada

trade-marks

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